



Foundation for Recovering Youth (Charter Holder)  
DBA Houston Heights High School  
(Federal Employer Identification Number: 76-0584154)  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of the Foundation for Recovering Youth DBA Houston Heights High School was reviewed and (check one)  X  approved   disapproved for the year ended August 31, 2017, at a meeting of the governing body of the charter holder on the 23<sup>rd</sup> day of January 2018.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

**NOTE:** If the governing body of the charter holder does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.

Foundation for Recovering Youth (Charter Holder)  
Houston Heights High School (School)

Independent Auditor's Reports and  
Financial Statements

August 31, 2017 and 2016



Houston Heights High School  
Financial Statements and Supplemental Information

August 31, 2017 and 2016

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## Independent Auditor's Report

To the Board of Trustees of  
Houston Heights High School

### **Report in the Financial Statements**

We have audited the accompanying financial statements of Foundation for Recovering Youth (charter holder) and Houston Heights High School (the charter school), which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation for Recovering Youth as of August 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying special-purpose statements are presented for additional analysis as required by the Texas Education Agency, and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2018, on our consideration of Foundation for Recovering Youth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Foundation for Recovering Youth's internal control over financial reporting and compliance.

*Ralph and Ralph, P.C.*

Houston, Texas  
January 12, 2018

Houston Heights High School  
 Statements of Financial Position  
 August 31, 2017 and 2016

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,212,631	\$ 1,171,521
Accounts receivable	42,270	11,725
Prepaid expenses and deposits	12,876	14,700
Total current assets	1,267,777	1,197,946
Investments, certificates of deposit	250,000	250,000
Property and equipment, net	150,505	154,219
	400,505	404,219
Total assets	\$ 1,668,282	\$ 1,602,165
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,381	\$ 16,268
Total current liabilities	8,381	16,268
<b>Net assets</b>		
Unrestricted net assets	214,683	214,057
Temporarily restricted	1,445,218	1,371,840
Total net assets	1,659,901	1,585,897
Total liabilities and net assets	\$ 1,668,282	\$ 1,602,165

*The notes to the financial statements are an integral part of the financial statements.*

Houston Heights High School  
 Statements of Activities  
 For the Years Ended August 31, 2017 and 2016

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 10,818	\$ -	\$ 10,818	\$ 3,370
5750 Revenue from enterprising sources	-	-	-	-
State program revenues				
5810 Foundation School Program Act	-	2,122,671	2,122,671	2,084,031
5820 State program revenues distributed by Texas Education Agency	-	50,525	50,525	-
Total state program revenues	-	2,173,196	2,173,196	2,084,031
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	123,416	123,416	156,365
Net assets released from restrictions:				
Restrictions satisfied by payments	2,223,234	(2,223,234)	-	-
Total revenues and other support	2,234,052	73,378	2,307,430	2,243,766
<b>Expenses and other losses</b>				
11 Instruction	1,175,147	-	1,175,147	1,143,239
12 Instructional resources and media services	-	-	-	-
13 Curriculum development and instructional staff development	900	-	900	838
21 Instructional leadership	73,867	-	73,867	96,312
23 School leadership	79,780	-	79,780	96,603
31 Guidance, counseling and evaluation service	98,020	-	98,020	47,660
33 Health services	887	-	887	572
35 Food services	14,526	-	14,526	15,400
36 Cocurricular/extracurricular activities	37,330	-	37,330	37,049
41 General administration	159,281	-	159,281	174,747
51 Plant maintenance and operations	593,688	-	593,688	535,955
52 Security and monitoring services	-	-	-	-
53 Data processing services	-	-	-	-
	2,233,426	-	2,233,426	2,148,375
Change in net assets	626	73,378	74,004	95,391
Net assets, beginning of year	214,057	1,371,840	1,585,897	1,490,506
Net assets, ending of year	\$ 214,683	\$ 1,445,218	\$ 1,659,901	\$ 1,585,897

*The notes to the financial statements are an integral part of the financial statements.*

Houston Heights High School  
Statements of Cash Flows  
For the Years Ended August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Foundation School Program payments	\$ 2,122,671	\$ 2,084,031
Grant payments	143,396	171,354
Miscellaneous sources	10,818	3,370
Payments to vendors for goods and services	(963,938)	(935,895)
Payments to charter school personnel for services	<u>(1,232,012)</u>	<u>(1,127,498)</u>
Net cash provided by operating activities	80,935	195,362
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	<u>(39,825)</u>	-
Net cash used by investing activities	(39,825)	-
Net change in cash and cash equivalents	41,110	195,362
Cash and cash equivalents, beginning of year	<u>1,171,521</u>	<u>976,159</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,212,631</u></u>	<u><u>\$ 1,171,521</u></u>
 Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	74,004	95,391
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	43,539	79,214
(Increase) decrease in assets:		
Accounts receivable	(30,545)	14,989
Deposits and prepaid expenses	1,824	(4,700)
Increase (decrease) in net liabilities:		
Accounts payable and accrued expenses	<u>(7,887)</u>	<u>10,468</u>
Net cash provided by operating activities	<u><u>\$ 80,935</u></u>	<u><u>\$ 195,362</u></u>

*The notes to the financial statements are an integral part of the financial statements.*



Houston Heights High School  
Notes to the Financial Statements  
August 31, 2017 and 2016

**Note 1 – Summary of Significant Accounting Policies**

**Organization and Nature of Activities**

Foundation for Recovering Youth, Inc., (charter holder), dba Houston Heights High School (HHHS), is a non-profit organization incorporated under the laws of the State of Texas. The charter school was organized to provide educational services for grades 8-12 and its programs, services and functions are governed by the corporation's board of directors. The charter holder operates one charter school, in Houston, Texas and does not engage in any other non-charter activity. The charter schools operations and primarily funds from the Texas Education Agency through the State's Foundation School Program. For the years ended August 31, 2017 and 2016, these program funds represented 92% and 93%, respectively, of total revenues.

The charter holder is governed by a board of directors comprised of three members. The Board of Directors is selected pursuant to the by-laws of the corporation and has the authority to make decisions, appoint the chief executive officer of the corporation, and significantly influence operations. The Board of Directors has the primary accountability for the affairs of the charter holder. Since the charter holder received funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds.

In 1998, the State Board of Education of the State of Texas granted the corporation an open enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, HHHS was opened in 1999. HHHS operates as part of the state public school system subject to all federal and state laws and rules governing public schools pursuant to its charter granted by the State Board of Education in accordance with the Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School. HHHS is also subject to all laws and rules pertaining to open enrollment charter schools in Section 12 of the Texas Education Code.

**Accounting Policies**

*Basis of Presentation*

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP). The accounting system is organization under the *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide.

HHHS reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted net assets □ Unrestricted net assets include unrestricted resources which represent the portions of funds that are available for the operating objectives of the organization.

Temporarily restricted net assets □ Temporarily restricted net assets consist of donor-restricted funds and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and unexpended amounts are reported as temporarily restricted net assets at year-end.

Houston Heights High School  
Notes to the Financial Statements  
August 31, 2017 and 2016

Permanently restricted net assets □ Permanently restricted net assets consist of donor-restricted contributions, which are required to be held in perpetuity. Income for the assets held is available for either general or specific purposes. HHHS has no permanently restricted net assets.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks. This category also includes all highly liquid investment instruments with a maturity of three months or less.

*Fair Value Measurement*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The accounting guidance includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 Unobservable inputs for the asset or liability, which include management's own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

GAAP requires disclosure of an estimate of fair value of certain financial instruments. HHHS □ significant financial instruments include cash, account receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value. HHHS also holds certificates of deposit, which are reported at cost; for these instruments, cost approximates fair value.

*Capital Assets*

Capital assets, comprised of leasehold improvements, equipment and furniture, are reported in the financial statements. Capital assets are defined by the charter holder as assets with an estimated useful life of more than one year and a cost of \$5,000 or more. Such assets are recorded at historical cost and are depreciated over the estimate useful lives of the assets, which range from five to 15 years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized; maintenance and repairs are charged to expense as incurred. Acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized. Donations of assets are recorded at fair value at the date of the donation, which is then treated as cost.

*Support and Revenue*

Support and revenue are recorded based on the accrual method. Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. Contributions and awards are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and report in the statement of activities as net assets released from restriction.

Houston Heights High School  
Notes to the Financial Statements  
August 31, 2017 and 2016

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures. Accordingly, actual results could differ from those estimates.

*Budget*

An official school budget is required for adoption for required Government Fund Types. The School's annual budget is prepared on a basis consistent with generally accepted accounting principles and is formally adopted by the Board.

**Note 2 – Cash Deposits**

The charter holder's funds are deposits and invested with depository contracts. The depository bank for the charter school accounts should deposit for safekeeping and trust with the charter holder's agent bank approved pledged securities in an amount sufficient to protect charter school funds on a day-to-day basis during the period of contract.

The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

**Note 3 – Investments**

Investments, consisting of certificates of deposit, are valued at cost which approximates fair value (a level 2 valuation measurement).

	<u>2017</u>	<u>2016</u>
Certificates of deposit, cost/ face value	\$ 250,000	\$ 250,000
Maturity date	12/15/2020	12/15/2020
Interest rate	0.50%	0.50%

**Note 4 – Capital Assets**

Capital assets at August 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Improvements	\$ 590,979	\$ 551,154
Furniture and equipment	<u>237,271</u>	<u>237,271</u>
	828,250	788,425
Less: Accumulated depreciation	<u>(677,745)</u>	<u>(634,206)</u>
	<u>\$ 150,505</u>	<u>\$ 154,219</u>

Depreciation expense was \$43,539 and \$79,214 for the years ended August 31, 2017 and 2016, respectively.

Capital assets acquired with public funds received by the charter holder for the operation of Houston Heights High School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Houston Heights High School  
Notes to the Financial Statements  
August 31, 2017 and 2016

**Note 5 – Pension Plan Obligations**

*Plan Description*

The charter school contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits and death benefits to plan members and beneficiaries.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district (ISD) may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. If a participating employer stops contribution to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement System, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the TRS Communications Department, 1000 Red River, Austin, Texas 78701 or by calling the TRS Communications Department at 1-(800) 223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under TRS Publications Heading.

*Funding Policy*

Employee contribution rates are set in the state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The following contribution rates were in effect for the years ended August 31, 2017 and 2016:

Contributon Rates by Type	2017	2016
Member	7.70%	7.20%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%

The charter school employees' contributions to the System for the years ended August 31, 2017 and 2016, were \$86,188 and \$86,948, equal to the required contributions for these years.

Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum at a rate of 6.8% for the years ending August 31, 2017 and 2016, were \$26,031 and \$25,220, respectively, equal to the required contributions for each year. There have been no changes that would affect the comparison of employer contributions from year to year.

The charter's contributions to the plan did not represent more than 5% of the total contributions to the plan. The charter holder made contributions for the Non-Old Age Survivor and Disability Insurance

Houston Heights High School  
Notes to the Financial Statements  
August 31, 2017 and 2016

**Note 5 – Pension Plan Obligations (Continued)**

(Non-OASDI) for certain employees. The total amount contributed for Non-OASDI for the fiscal years ending August 31, 2017 and 2016 was \$15,606 and \$15,916, respectively.

As of August 31, 2017, the Plan consisted of the following:

Plan Name	Plan Number	Total Plan Assets	Accumulated Benefit Obligations	% Funded
Teacher Retirement System of Texas	N/A	\$ 165,379,342,000	\$ 179,336,535,000	80.50%

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below, which are paid by the employers. Employers are required to pay the employer contribution rate in the following instances:

- During a new member’s first 90 days of employment
- When any part or all of an employee’s salary is paid by federal funding source or a privately sponsored source

In addition to the employer contribution listed above, when employing a retiree of the Teacher’s Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

**Note 6 – Health Care Coverage**

During the years ended August 31, 2017 and 2016, employees of the charter school were covered by a Health Insurance Plan (the Plan). The charter school contributed \$300 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to contributions or premiums for dependents. All premiums were paid to licensed insurers.

**Note 7 – Lease Obligation and Related Party Transactions**

The HHHS is under an operating lease for its facility, with a monthly expense of \$25,335 plus facility property taxes and a termination date of December 1, 2025. HHHS incurred \$360,690 and \$357,410 in facilities lease expenses for the years ended August 31, 2017 and 2016, respectively. Future minimum payments under this agreement for the years ending August 31 are as follows:

2018	\$	304,020
2019		304,020
2020		304,020
2021		304,020
2022		304,020

The facility lease agreement is with an entity, which is wholly owned by Mr. Richard Mik, the former superintendent and CEO of HHHS. The arrangement has been disclosed to the TEA, and the rental rates are less comparable to the prevailing market rate.

Houston Heights High School  
Notes to the Financial Statements  
August 31, 2017 and 2016

**Note 8 – Commitments and Contingencies**

The charter school receives funds through state and federal programs that are governed by various statutes and regulations of the grantor agency. State Foundation program funding is based on student enrollment and attendance, as reported to the Texas Education Agency by the charter holder.

Student enrollment and attendance reports are subject to audit by the Texas Education Agency and amounts paid to the charter holder may be adjusted according to the results of any such TEA audit. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency. In the opinion of management, there are no contingent liabilities relating to enrollment and attendance records as filed or relative to compliance with the rules and regulations governing grant expenditures; therefore, no provision has been made in the accompanying financial statements for such contingencies.

**Note 9 – Temporarily Restricted Net Assets**

Temporarily restricted net assets for the years ending August 31, 2017 and 2016 consisted of the following:

	2017	2016
FSP revenues (420)	1,445,218	1,371,214
Technology allotment (411)	-	626
	1,445,218	1,371,840

**Note 10 - Income Taxes**

HHHS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business taxable income. The School had no unrelated business income for the years ended August 31, 2017 and 2016 and, therefore, has no provision for income taxes.

The tax positions taken related to HHHS's tax exempt status have been reviewed. In management's opinion, these positions would more likely than not be sustained by examination. Accordingly, the School has not recorded an income tax liability for uncertain tax benefits. For the years ended August 31, 2017 and 2016, there were no penalties related to income taxes recorded or included in the financial statements. As of August 31, 2017, the School's tax years 2014 and thereafter are subject to examination.

**Note 11 – Subsequent events**

Generally accepted accounting principles establish standard of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued. Management has evaluated subsequent events through January 12, 2018, which is the date the financial statements were available to be issued, and determined that no events have occurred that warrant disclosure.

## Special-Purpose Statements

Houston Heights High School  
 Schedule of Expenses  
 For the Years Ended August 31, 2017 and 2016

	Totals	
	2017	2016
Expenses		
6100 Payroll Costs	\$ 1,340,144	\$ 1,334,115
6200 Professional and Contracted Services	651,052	575,856
6300 Supplies and Materials	140,202	94,008
6400 Other Operating Costs	102,028	144,396
6500 Debt	-	-
Total Expenses	\$ 2,233,426	\$ 2,148,375



Houston Heights High School  
 Schedule of Capital Assets  
 As of August 31, 2017

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ -	\$ 1,212,631	\$ -
1910 Investments	-	250,000	-
1520 Improvements	52,804	452,088	-
1539 Furniture and Equipment	39,650	242,547	41,160
	\$ 92,454	\$ 2,157,266	\$ 41,160

Houston Heights High School  
 Budgetary Comparison Schedule  
 For the Year Ended August 31, 2017

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local support				
5740 Other Revenues from local sources	\$ 1,400	\$ 1,400	\$ 10,818	\$ 9,418
5750 Revenue from enterprising sources	-	-	-	-
State program revenues				
5810 Foundation School Program Act	2,030,000	2,120,155	2,122,671	2,516
5820 State Program revenues distributed by Texas Education Agency	-	50,525	50,525	-
Total state program revenues	<u>2,030,000</u>	<u>2,170,680</u>	<u>2,173,196</u>	<u>2,516</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	125,806	123,416	(2,390)
Total federal revenues	<u>-</u>	<u>125,806</u>	<u>123,416</u>	<u>(2,390)</u>
Total revenues	<u>2,031,400</u>	<u>2,297,886</u>	<u>2,307,430</u>	<u>9,544</u>
Expenses				
11 Instruction	1,159,442	1,189,500	1,175,147	14,353
12 Instructional Resource and Media	-	-	-	-
13 Curriculum Development and Instructional Staff Development	2,900	900	900	-
21 Instructional Leadership	96,850	74,500	73,867	633
23 School Leadership	100,650	81,000	79,780	1,220
31 Guidance, Counseling and Evaluation Services	65,000	100,000	98,020	1,980
32 Social Work Services	-	-	-	-
33 Health Services	700	900	887	13
34 Student (Pupil) Travel	-	-	-	-
35 Food Service	17,000	15,000	14,526	474
36 Cocurricular/Extracurricular Activities	38,150	40,500	37,330	3,170
41 General Administration	144,301	168,802	159,281	9,521
51 Plant Maintenance and Operations	553,000	600,000	593,688	6,312
52 Security and Monitoring Services	-	-	-	-
Total expenses	<u>2,177,993</u>	<u>2,271,102</u>	<u>2,233,426</u>	<u>37,676</u>
Change in net assets	(146,593)	26,784	74,004	47,220
Net assets, beginning of year	<u>1,585,897</u>	<u>1,585,897</u>	<u>1,585,897</u>	<u>-</u>
Net assets, end of year	<u>\$ 1,439,304</u>	<u>\$ 1,612,681</u>	<u>\$ 1,659,901</u>	<u>\$ 47,220</u>

See auditors report

## Supplemental Reporting



**Independent Auditor’s Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Based on  
an Audit of Financial Statements Performed  
In Accordance with *Government Auditing Standards***

To the Board of Directors of  
Houston Heights High School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Houston Heights High School (the School) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the School’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ralph and Ralph, P. C.*

January 12, 2018

Houston Heights High School  
Schedule of Findings and Questioned Costs  
For the Year Ended August 31, 2017

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the financial statements of the auditee

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes  No

Significant deficiency(ies) identified that are not considered to be material weaknesses?

Yes  none reported

Noncompliance material to financial statements noted?

Yes  No

Federal Awards

*Auditee did not meet the requirements for a single audit.*

II. Financial Statement Findings

None identified

III. Findings and questioned costs for state and federal awards

None identified

Houston Heights High School  
Schedule of Prior Audit Findings  
For the Year Ended August 31, 2016

None identified; no 2016 findings.