

ANNUAL FINANCIAL REPORT

of

**WEST HOUSTON
CHARTER ALLIANCE, INC.**

DBA

WEST HOUSTON CHARTER SCHOOL

For the Years Ended
August 31, 2011 and 2010

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WEST HOUSTON CHARTER ALLIANCE, INC.

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For the Years Ended August 31, 2011 and 2010

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WEST HOUSTON CHARTER ALLIANCE, INC.
CERTIFICATE OF BOARD

West Houston Charter Alliance, Inc.
Name of Charter Holder

76-0495959
Federal Employer ID Number

West Houston Charter School
Name of Charter School

Harris
County

101-803
Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance report of the above named Charter Holder was reviewed and (check one) approved disapproved for the year ended August 31, 2011, at a meeting of the governing body of the Charter Holder on the 26th day of March, 2012.


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.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
West Houston Charter Alliance, Inc.:

We have audited the accompanying statements of financial position of West Houston Charter Alliance, Inc. (the "Charter Holder") dba West Houston Charter School (a non-profit organization) as of and for the years ended August 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Charter Holder's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charter Holder as of August 31, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012 on our consideration of the Charter Holder'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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

6100 Windy Hill Lane
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The financial schedules noted as supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 27, 2012

Except for Note 13, Subsequent Event and Reissuance related to a forbearance agreement as to which the date is March 9, 2012. Also, based on this subsequent event, the paragraph in our original opinion letter highlighting going concern has been removed.

FINANCIAL STATEMENTS

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WEST HOUSTON CHARTER ALLIANCE, INC.

STATEMENT OF FINANCIAL POSITION - EXHIBIT A-1

August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 372,840	\$ 417,653
Due from Texas Education Agency	128,843	122,161
Other receivables	5,466	6,000
Deferred charges	258,302	270,851
Total current assets	<u>765,451</u>	<u>816,665</u>
Property and equipment, net	<u>1,610,600</u>	<u>1,660,933</u>
Total non-current assets	<u>1,610,600</u>	<u>1,660,933</u>
Total Assets	<u>\$ 2,376,051</u>	<u>\$ 2,477,598</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 4,585	\$ 364
Payroll deductions payable	33,094	52,884
Accrued salaries payable	34,339	47,341
Accrued interest	331,790	331,790
Due to Texas Education Agency	5,222	-
Deferred revenue	-	10,245
Bonds payable - current maturities	170,000	2,830,000
Total current liabilities	<u>579,030</u>	<u>3,272,624</u>
Long-term liabilities:		
Bonds payable	<u>2,660,000</u>	<u>-</u>
Total long-term liabilities	<u>2,660,000</u>	<u>-</u>
Total Liabilities	<u>3,239,030</u>	<u>3,272,624</u>
Net assets:		
Unrestricted	<u>(862,979)</u>	<u>(795,026)</u>
Total net assets	<u>(862,979)</u>	<u>(795,026)</u>
Total Liabilities and Net Assets	<u>\$ 2,376,051</u>	<u>\$ 2,477,598</u>

See Notes to Financial Statements.

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WEST HOUSTON CHARTER ALLIANCE, INC.

STATEMENT OF ACTIVITIES - EXHIBIT A-2

For the Years Ended August 31, 2011 and 2010

	Unrestricted	Temporarily Restricted	Totals	
			2011	2010
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 48,796	\$ -	\$ 48,796	\$ 28,957
5750 Revenue from co-curricular or enterprising	30,153	-	30,153	3,571
Total local support	<u>78,949</u>	<u>-</u>	<u>78,949</u>	<u>32,528</u>
State program revenues				
5810 Foundation school program act revenues	-	2,172,355	2,172,355	2,235,562
5820 State program revenues distributed by				
Texas Education Agency	-	18,483	18,483	14,176
Total state program revenue	<u>-</u>	<u>2,190,838</u>	<u>2,190,838</u>	<u>2,249,738</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	170,039	170,039	140,731
Net assets released from restrictions:				
Restricted satisfied by payments	2,360,877	(2,360,877)	-	-
Total Revenues	<u>2,439,826</u>	<u>-</u>	<u>2,439,826</u>	<u>2,422,997</u>
Expenses				
11 Instruction	1,340,009	-	1,340,009	1,249,129
12 Instructional resources and media services	30,431	-	30,431	13,059
13 Curriculum development and instructional staff development	29,258	-	29,258	13,920
21 Instructional leadership	-	-	-	2,122
23 School leadership	256,160	-	256,160	245,827
31 Guidance, counseling and evaluation services	18,828	-	18,828	74,732
33 Health services	439	-	439	290
35 Food services	71,013	-	71,013	64,419
36 Co-curricular/extracurricular activities	8,009	-	8,009	11,397
41 General administration	293,641	-	293,641	189,629
51 Plant maintenance and operations	201,107	-	201,107	170,682
52 Security and monitoring services	3,652	-	3,652	3,371
53 Data processing services	21,294	-	21,294	24,685
71 Debt service	233,938	-	233,938	221,742
81 Fundraising	-	-	-	2,687
Total Expenses	<u>2,507,779</u>	<u>-</u>	<u>2,507,779</u>	<u>2,287,691</u>
Other Sources (Uses)				
Transfer in	9,708	-	9,708	(199,098)
Transfer (out)	(9,708)	-	(9,708)	199,098
Total Other Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(67,953)	-	(67,953)	135,306
Beginning net assets	(795,026)	-	(795,026)	(930,332)
Ending Net Assets	<u>\$ (862,979)</u>	<u>\$ -</u>	<u>\$ (862,979)</u>	<u>\$ (795,026)</u>

See Notes to Financial Statements.

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WEST HOUSTON CHARTER ALLIANCE, INC.

STATEMENT OF CASH FLOWS - EXHIBIT A-3

For the Years Ended August 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Foundation school program payments	\$ 2,197,239	\$ 2,288,883
Grant payments	170,039	140,731
Miscellaneous sources	58,375	32,418
Payments to vendors for goods and services rendered	(1,117,455)	(963,093)
Payments to charter school personnel for services rendered	(1,353,011)	(1,251,076)
Net Cash Provided (Used) by Operating Activities	(44,813)	247,863
Net Change in Cash and Cash Equivalents	(44,813)	247,863
Beginning cash and cash equivalents	417,653	169,790
Ending Cash and Cash Equivalents	\$ 372,840	\$ 417,653
Adjustments to Reconcile to Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Increase (decrease) in net assets	\$ (67,953)	\$ 135,306
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) in operating activities		
Depreciation	70,907	69,877
Non-cash contributions	(20,574)	-
(Increase) decrease in:		
Due from Texas Education Agency	(6,682)	(51,665)
Other receivables	534	(6,000)
Deferred charges	12,549	12,549
Other restricted asset	-	84,261
Increase (decrease) in:		
Accounts payable	4,221	(33,104)
Payroll deduction payable	(19,790)	38,586
Accrued salaries payable	(13,002)	(1,947)
Due to Texas Education Agency	5,222	-
Deferred revenue	(10,245)	-
Net Cash Provided (Used) by Operating Activities	\$ (44,813)	\$ 247,863

See Notes to Financial Statements.

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WEST HOUSTON CHARTER ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of West Houston Charter Alliance, Inc. (the “Charter Holder”) dba West Houston Charter School (a non-profit organization) were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Charter Holder is a not-for-profit organization incorporated in the State of Texas in 1996 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Charter Holder is governed by a Board of Directors comprised of six members. The Board of Directors is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal 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.

Corporate Operations

In 1996, the State Board of Education of the State of Texas granted the organization 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, West Houston Charter School was opened for the 1996-1997 academic year. West Houston Charter School was organized to provide educational services to students in grades kindergarten through eighth grade, and the Charter Holder’s Board of Directors governs their programs, services, activities, and functions.

Basis of Accounting and Presentation

The accompanying general purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Charter Holder, the charter school and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently restricted – net assets required to be maintained in perpetuity with only the income to be used for the charter school activities due to donor-imposed restrictions.

WEST HOUSTON CHARTER ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Years Ended August 31, 2011 and 2010

Use of Estimates

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

Contributions

The Charter Holder accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Cash and Cash Equivalents

For financial statement purposes, the Charter Holder considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include land, buildings, and furniture and equipment, are reported in the general purpose financial statements. Capital assets are defined by the Charter Holder as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to 20 years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

NOTE 2 – CAPITAL ASSETS

Capital assets at August 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 101,999	\$ 101,999
Buildings	2,155,374	2,155,374
Furniture and equipment	116,951	96,377
Total property and equipment	<u>2,374,324</u>	<u>2,353,750</u>
Less accumulated depreciation	(763,724)	(692,817)
Property and equipment, net	<u>\$ 1,610,600</u>	<u>\$ 1,660,933</u>

Capital assets acquired with public funds received by the Charter Holder for the operation of the charter school constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the schedule of capital assets.

WEST HOUSTON CHARTER ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2011 and 2010

NOTE 3 – LONG-TERM DEBT

In March 2002, the Charter Holder entered into a bond agreement with Danbury Higher Education Authority, Inc. The original amount of the bond was \$2,830,000. The proceeds were for the construction of a new facility in Katy, Texas. No principal payments have been made. Various amounts of interest payments have been made. Interest rates vary. The bond is secured by a first lien on the land and buildings of the Charter Holder. For the year ended August 31, 2011, the Charter Holder paid \$221,389 in bond interest payments.

During the last five years, the Charter Holder has violated several debt covenants. The school failed to make the required minimum principal and interest payments required by the bond. However, due to a forbearance agreement entered into on March 1, 2012, the bonds are not in default. See footnote 13 for additional details regarding the forbearance agreement. The accrued interest payable as of August 31, 2011 was \$331,790. The following is a summary of the long-term liabilities of the Charter Holder at August 31, 2011.

	<u>Original Issuance Amount</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>	<u>Interest Rates</u>
Bonds payable:							
Series 2002A	\$ 2,510,000	\$ 2,510,000	\$ -	\$ -	\$ 2,510,000	\$ 150,000	6.75%-8.25%
Series 2002B	320,000	320,000	-	-	320,000	20,000	9.00%
	<u>\$ 2,830,000</u>	<u>\$ 2,830,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,830,000</u>	<u>\$ 170,000</u>	

NOTE 4 – PENSION PLAN OBLIGATIONS

Plan Description

The Charter Holder contributes to the Teacher Retirement System of Texas (“TRS”), a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the Charter Holder, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, www.trs.state.tx.us under the TRS Publications Heading.

WEST HOUSTON CHARTER ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Years Ended August 31, 2011 and 2010

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas State legislature. The State funding policy is as follows: (1) the State constitution requires the legislature to establish a member contribution rate of not less than six percent of the member's annual compensation and a State contribution rate of not less than six percent and not more than ten percent of the aggregate annual compensation of all members of the system; (2) State statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds one year, the period would be increased by such action. State law provides for a member contribution rate of 6.4 percent for fiscal year 2011, 2010 and 2009, and a State contribution rate of 6.58 percent for fiscal years 2011, 2010, and 2009. The Charter Holder's employees' contributions to the System for the years ending August 31, 2011, 2010 and 2009 were \$88,472, \$75,918, and \$66,583, respectively, equal to the required contributions for each year. The Charter did not make any contributions or required contributions for federal and private grants for salaries above the statutory minimum for the year ending August 31, 2011. The contributions for fiscal years ending August 31, 2010 and 2009 were \$1,484 and \$0 respectively.

NOTE 5 – HEALTH CARE COVERAGE

During the year ended August 31, 2011, employees of the Charter Holder were covered by the TRS-Active Care health insurance plan (the "Plan"). The Charter Holder contributed \$150 per month, per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

NOTE 6 – DUE FROM STATE

As of August 31, 2011 and 2010, the Charter Holder had earned the following revenues which were not received until after the fiscal year end:

	<u>2011</u>	<u>2010</u>
State Foundation Program	\$ 92,843	\$ 122,161
Title I, Part A	6,361	-
Title II, Part A	2,205	-
ARRA Title XIV SFSE	22,423	-
ARRA IDEA B Preschool	10	-
SSI - Accelerated Reader Program	5,001	-
Total	<u>\$ 128,843</u>	<u>\$ 122,161</u>

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Charter Holder receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency ("TEA") and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Charter Holder have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the TEA or the grantor agency.

WEST HOUSTON CHARTER ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Years Ended August 31, 2011 and 2010

NOTE 8 – OPERATING LEASES

The Charter Holder has operating lease agreements for various office equipment and portable buildings as of August 31, 2011. For the year ended August 31, 2011, the Charter Holder made \$56,302 in lease payments.

Lease commitments will be as follows for the remaining years of the leases:

<u>Year Ended</u> <u>Aug 31</u>	<u>Annual</u> <u>Rent Payments</u>
2012	\$ 13,852
2013	12,804
2014	12,177
Total	\$ 38,833

NOTE 9 – ACCRUED SALARIES

During August 2011, the Charter Holder's teachers worked eight days for which they were not paid until after September 1, 2011. Based upon the daily rate of pay and the number of days worked, \$34,339 was accrued.

During August 2010, the Charter Holder's teachers worked 17 days for which they were not paid until after September 1, 2010. Based upon the daily rate of pay and the number of days worked, \$47,341 was accrued.

NOTE 10 – STATE FOUNDATION PROGRAM REVENUE

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period. At the close of the year, actual attendance is calculated by the TEA and the attendance reports are subject to audit by the TEA. Final State foundation program earnings may be adjusted as a result of any such audit. During the period ended August 31, 2011, the Charter Holder was paid \$2,172,355 of State foundation program funds of which all was earned (before any possible TEA enrollment and attendance audit).

During the year ended August 31, 2011, the Charter Holder had eight days of instruction in August 2011. Based on the estimated State Foundation Program revenue for 2011-2012 as provided by the TEA, \$92,843 was earned for these days of instruction. This revenue has been accrued at August 31, 2011 and will be received after September 1, 2011.

NOTE 11 – CHARTER HOLDER OPERATIONS

The Charter Holder is West Houston Charter Alliance, Inc. The Charter Holder operates a single charter school named West Houston Charter School and does not conduct any other charter or non-charter activities.

WEST HOUSTON CHARTER ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Years Ended August 31, 2011 and 2010

NOTE 12 – RESTATEMENT

The Charter Holder has restated its prior year ending net assets to account for debt service payments that should have been recorded in 2010. The restatement of prior year ending net assets is as follows:

2010 ending net assets, as reported	\$	(771,379)
Restatement		<u>(23,647)</u>
Restated 2010 ending net assets	\$	<u>(795,026)</u>

NOTE 13 – SUBSEQUENT EVENT AND REISSUANCE

On or about March 8, 2012, the Charter Holder obtained signatures from both the Danbury Education Authority and US Bank on a forbearance agreement dated March 1, 2012. The agreement allows the Charter Holder to reduce monthly payments to \$34,000 from April 2012 to August 2012, and \$18,432 for September 2012 to June 30, 2014, which is the expiration date of the agreement. The reissued report reflects only the required minimum payments, as provided by the forbearance agreement, as a short term obligation. Based on this agreement, our auditors have removed a paragraph highlighting going concern which was included in the original opinion letter.

The Charter holder is continuing to seek approval from bond holders for forgiveness of accrued interest on the bonds. The financial statements reflect the full amount of unpaid interest, without regard to forgiveness that may subsequently be obtained.

SUPPLEMENTAL INFORMATION

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WEST HOUSTON CHARTER ALLIANCE, INC.

SCHEDULE OF EXPENSES - EXHIBIT C-1

For the Years Ended August 31, 2011 and 2010

		Totals	
		2011	2010
Expenses			
6100	Payroll costs	\$ 1,655,031	\$ 1,387,526
6200	Professional and contracted services	339,437	457,675
6300	Supplies and materials	137,199	83,471
6400	Other operating costs	142,174	130,524
6500	Debt	233,938	228,495
	Total Expenses	<u>\$ 2,507,779</u>	<u>\$ 2,287,691</u>

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WEST HOUSTON CHARTER ALLIANCE, INC.

SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1

August 31, 2011

		Ownership Interest		
		Local	State	Federal
1510	Land	\$ -	\$ 101,999	\$ -
1520	Buildings and improvements	-	2,155,374	-
1539	Furniture and equipment	\$95,085	21,866	-

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WEST HOUSTON CHARTER ALLIANCE, INC.

BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)

GENERAL FUND - EXHIBIT E-1

For the Year Ended August 31, 2011

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
		<u>Original</u>	<u>Final</u>		
<u>Revenues</u>					
5740	Other revenues from local sources	\$ 18,000	\$ 18,000	\$ 41,934	\$ 23,934
5750	Revenue from co-curricular or enterprising	-	-	542	542
	Total local support	<u>18,000</u>	<u>18,000</u>	<u>41,934</u>	<u>23,934</u>
State program revenues					
5810	Foundation school program revenues	<u>2,236,801</u>	<u>2,203,796</u>	<u>2,172,355</u>	<u>(31,441)</u>
	Total state program revenue	<u>2,236,801</u>	<u>2,203,796</u>	<u>2,172,355</u>	<u>(31,441)</u>
Federal program revenues					
5920	Federal revenues distributed by Texas Education Agency	<u>59,250</u>	<u>59,250</u>	-	<u>(59,250)</u>
	Total Revenues	<u>2,314,051</u>	<u>2,281,046</u>	<u>2,214,289</u>	<u>(66,757)</u>
<u>Expenses</u>					
11	Instruction	1,329,610	1,213,046	1,236,232	(23,186)
12	Instructional resources and media services	26,000	28,600	30,431	(1,831)
13	Curriculum development and instructional staff development	24,000	21,600	10,920	10,680
23	School leadership	220,000	242,000	256,160	(14,160)
33	Health services	1,500	1,350	439	911
36	Co-curricular/extracurricular activities	8,200	7,380	7,835	(455)
41	General administration	232,198	255,418	279,902	(24,484)
51	Plant maintenance and operations	176,593	194,252	201,107	(6,855)
52	Security and monitoring services	4,200	4,200	3,652	548
53	Data processing services	10,500	11,550	12,700	(1,150)
71	Debt service	<u>204,000</u>	<u>224,400</u>	<u>233,938</u>	<u>(9,538)</u>
	Total Expenses	<u>2,236,801</u>	<u>2,203,796</u>	<u>2,273,316</u>	<u>(69,520)</u>
	Change in Net Assets	<u>\$ 77,250</u>	<u>\$ 77,250</u>	<u>(59,027)</u>	<u>\$ (136,277)</u>
<u>Other Financing Sources (Uses)</u>					
8940	Transfers in/(out)			<u>(9,708)</u>	
	Total Other Financing Sources (Uses)			<u>(9,708)</u>	
Reconciliation to Ending Net Assets					
	Change in net assets due to activity in other funds			<u>782</u>	
	Change in Net Assets (all funds)			<u>(67,953)</u>	
	Beginning Net Assets			<u>(795,026)</u>	
	Ending Net Assets			<u>\$ (862,979)</u>	

NOTE: The budget schedule above includes only accounts from Fund 420. The PEIMS report submitted by the Charter Holder, also includes Fund 199 within the General Fund. Therefore, amounts reported for functions 31 and 36 above will differ from the PEIMS report since the PEIMS report includes expenses from Fund 199 for these functions.

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COMPLIANCE

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING
STANDARDS***

January 27, 2012

To the Board of Directors of
West Houston Charter Alliance, Inc.:

We have audited the financial statements of West Houston Charter Alliance, Inc. (the "Charter Holder") dba West Houston Charter School (a non-profit organization) as of and for the years ended August 31, 2011 and 2010 and have issued our report thereon dated January 27, 2012. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Charter Holder's internal control over financial reporting as a basis for designing our auditing procedures 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 Charter Holder's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

6100 Windy Hill Lane
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Holder's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors, management, and the Texas Education Agency and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 27, 2012

The independent auditors' report was dual dated as of March 9, 2012 due to a subsequent event related to a forbearance agreement. Due to this subsequent event, the material weakness previously reported has been removed as of July 11, 2012.

WEST HOUSTON CHARTER ALLIANCE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1

For the Year Ended August 31, 2011

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of audit report issued Unqualified

Internal control over financial reporting:

One or more material weakness(es) identified? No

One or more significant deficiency(ies) identified that are not
considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

II. FINANCIAL STATEMENT FINDINGS

None identified

III. FINDINGS AND QUESTIONED COSTS FOR STATE AND FEDERAL AWARDS

None identified.

WEST HOUSTON CHARTER ALLIANCE, INC.
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - EXHIBIT G-1
For the Year Ended August 31, 2011

Finding 2009-2

Criteria: Public charter schools are required to repay all debts on a timely basis.

Condition: The Charter Holder did not repay the principal or interest on bonds on a timely basis.

Lack of action that caused the finding: The Charter Holder has failed to make any principal payments.

Effect: The Charter Holder did not budget properly to ensure that the Charter Holder would have enough cash to repay the debt and continue to operate.

Recommendation: The Charter Holder should restructure their bond payments with the trustee of the bonds so that the principal and interest payments will be met. The Charter Holder should ensure that all principal and interest payments are made on a timely basis.

Status: The Charter Holder entered into a forbearance agreement on March 1, 2012, and the bonds are no longer in default.