

SALVAGING TEENS AT RISK, INC.
CHARTER HOLDER

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

AUGUST 31, 2005

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SALVAGING TEENS AT RISK, INC.
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2005

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FREEMON, SHAPARD & STORY
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Salvaging Teens at Risk, Inc.
5901 Crestwood Place
Little Elm, Texas 75068

Members of the Board of Directors:

We have audited the accompanying general-purpose financial statements of Salvaging Teens at Risk, Inc. (the charter holder) as of and for the year ended August 31, 2005. These general-purpose financial statements are the responsibility of Salvaging Teens at Risk, Inc.'s management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. The prior year summarized comparative information has been derived from the organization's 2004 financial statements and, in our report dated November 19, 2004, we expressed an unqualified opinion on these financial statements.

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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose 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 audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Salvaging Teens at Risk, Inc. (the charter holder) as of August 31, 2005, and the respective changes in net assets and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2005, on our consideration of the charter holder's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying required supplementary information is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general-purpose financial statements taken as a whole.

Respectfully submitted,

Freemon, Shapard and Story

Freemon, Shapard and Story
November 16, 2005

**General-Purpose
Financial Statements**

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2005 AND 2004

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Current assets		
Cash and cash equivalents	\$ 1,421,696	\$ 956,671
Due from Governments	100,736	132,677
Deferred Expenses	13,053	12,639
Total Current Assets	<u>1,535,485</u>	<u>1,101,987</u>
Property and Equipment, net	<u>495,023</u>	<u>490,885</u>
Total Assets	<u>\$ 2,030,508</u>	<u>\$ 1,592,872</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts Payable	\$ -	\$ 370
Payroll Deductions and Withholdings Payable	1,366	458
Deferred Revenue	-	-
Total Current Liabilities	<u>1,366</u>	<u>828</u>
Long Term Debt	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,366</u>	<u>828</u>
Net Assets (Deficit):		
Unrestricted	29,336	-
Temporarily Restricted	<u>1,999,806</u>	<u>1,592,044</u>
Total Net Assets (Deficit)	<u>2,029,142</u>	<u>1,592,044</u>
Total Liabilities and Net Assets	<u>\$ 2,030,508</u>	<u>\$ 1,592,872</u>

The accompanying notes are an integral part of these financial statements.

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	Unrestricted	Temporarily Restricted	Totals	
			2005	2004
Revenues				
Local support:				
Interest and other income	\$ 3,824	\$ -	\$ 3,824	\$ 3,816
Rent	-	-	-	5,090
Gifts and bequests	-	-	-	525
Revenues from cocurricular, enterprising	11,778	-	11,778	-
Other revenues from local sources	19,416	-	19,416	22,236
Total local support	<u>35,018</u>	<u>-</u>	<u>35,018</u>	<u>31,667</u>
State program revenues:				
Foundation School Program	-	1,777,670	1,777,670	1,506,873
Other State Aid	-	21,329	21,329	24,203
Total state program revenues	<u>-</u>	<u>1,798,999</u>	<u>1,798,999</u>	<u>1,531,076</u>
Federal program revenues:				
ESEA Title IV	-	668	668	962
ESEA Title I, Part A	-	16,455	16,455	16,535
IDEA Part B	-	42,391	42,391	38,357
Child Nutrition	-	25,754	25,754	11,819
ESEA Title II, Part A	-	8,022	8,022	9,482
ESEA Title II, Part D	-	438	438	480
Title V, Part A	-	621	621	1,522
Public Charter Schools	-	-	-	52,564
Total federal program revenues	<u>-</u>	<u>94,349</u>	<u>94,349</u>	<u>131,721</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>1,485,586</u>	<u>(1,485,586)</u>	<u>-</u>	<u>-</u>
Total Revenues	\$ <u>1,520,604</u>	\$ <u>407,762</u>	\$ <u>1,928,366</u>	\$ <u>1,694,464</u>
Expenses				
Program services:				
Instruction and Instructional Related Services	792,161	-	792,161	642,896
Instructional and School Leadership	111,971	-	111,971	74,288
Support Services:				
Administrative Support Services	186,369	-	186,369	170,960
Support Services - Non-Student Based	318,293	-	318,293	302,164
Support Services - Student (Pupil)	82,474	-	82,474	61,464
Total Expenses	\$ <u>1,491,268</u>	\$ <u>-</u>	\$ <u>1,491,268</u>	\$ <u>1,251,772</u>
Change in Net Assets	29,336	407,762	437,098	442,692
Net assets, beginning of year	-	1,592,044	1,592,044	1,149,352
Net assets, end of year	\$ <u>29,336</u>	\$ <u>1,999,806</u>	\$ <u>2,029,142</u>	\$ <u>1,592,044</u>

The accompanying notes are an integral part of these financial statements.

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Change in Net Assets	\$ 437,098	\$ 442,692
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	35,382	33,624
(Increase) Decrease in Due from Governments	31,941	8,787
(Increase) Decrease in Accrued Interest	-	154
(Increase) Decrease in Deferred Expenses	(414)	(12,639)
Increase (Decrease) in Accounts Payable	(370)	(5,505)
Increase (Decrease) in Payroll Deductions and Withholdings Payable	908	(645)
Increase (Decrease) in Deferred Revenue	-	(11,720)
	<u>504,545</u>	<u>454,748</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Purchase of Land	-	(274,874)
Purchase of Equipment and Buildings	(39,520)	(138,866)
	<u>(39,520)</u>	<u>(413,740)</u>
Net cash provided (used) by investing activities		
Cash flows from financing activities		
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	465,025	41,008
Cash and cash equivalents, Beginning of Year	<u>956,671</u>	<u>915,663</u>
Cash and cash equivalents, End of Year	<u>\$ 1,421,696</u>	<u>\$ 956,671</u>
Income taxes paid during the period ended August 31, 2005 and 2004.	None	None
Interest paid during the period ended August 31, 2005 and 2004.	None	None

The accompanying notes are an integral part of these financial statements.

**Notes to the
Financial Statements**

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of Salvaging Teens at Risk, Inc. (the charter holder) 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.

A. *Reporting Entity*

The charter holder is a not-for-profit organization incorporated in the State of Texas in 1997 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The charter school is governed by a Board of Directors comprised of five members. The Board of Directors is selected pursuant to the bylaws of the charter school and has the authority to make decisions, appoint the chief executive officer of the charter school and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the charter school.

Since the corporation received funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds.

B. *Corporate Operations*

The charter school is operating an open-enrollment charter school providing education to elementary and secondary students authorized under Chapter 12, Subchapter D of the Texas Education Code. The Texas State Board of Education issued the initial charter to The Education Center for a period of five years from December 11, 2000, to August 1, 2005. Total enrollment was originally limited to 300 students, but the charter was amended to allow up to 800 students. The open-enrollment charter contract renewal application was received by the Texas Education Agency by the May 31, 2005, due date. Authorization to continue operations is automatically extended until the school receives notification that renewal has been either granted or denied.

C. *Basis of Presentation*

The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, management has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Net assets and revenues, expenses, gains and losses are classified based on the existence 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:

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

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 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 holder's activities due to donor-imposed restrictions.

D. Contributions

The corporation accounts for contributions in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions are recorded 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.

No amounts have been reflected in the financial statements for donated materials or services since no objective basis is available to measure the value thereof; however, a substantial number of volunteers donate their time to the charter school program services and in fund-raising activities.

E. Cash and Cash Equivalents

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

F. Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the charter school as assets with an individual cost of more than \$5,000 and an estimated useful life of three or more years. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty 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.

**SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005**

Depreciation is provided on the straight-line method over the estimated useful lives of the buildings and equipment. Depreciation expense is allocated on the basis of usage by the charter school. The estimated useful lives are as follows:

Leasehold improvements	Lease term
Equipment	3-10 years
Buildings	20 years

G. *Revenues*

Revenues from the Charter-holder contract are based on reported attendance and are comprised of state available school funds and other grants that are paid to Salvaging Teens at Risk, Inc. for the purpose of operating the charter school.

H. *Personal Leave*

All full time employees of the charter school earn five days of paid personal leave per year. However, the balance does not accumulate; therefore, there is no liability accrued on the financial statements.

I. *Functional Allocation of Expenses*

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

J. *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 these estimates.

K. *Federal Income Taxes*

The charter school is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the entity has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

2. CASH DEPOSITS

The corporation's funds are deposited and invested with depository banks. The depository bank deposits for safekeeping and trust with the charter holder's agent bank approved pledged securities in an amount sufficient to protect corporate funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance School ("FDIC") insurance.

At August 31, 2005, the carrying amount of the charter holder's deposits (cash, certificates of deposit and interest-bearing savings accounts included in temporary investments) was \$1,421,696, and the bank balance was \$1,541,822 (depository accounts-\$1,042,291 and certificates of deposit and money markets-\$499,531). The charter school's cash deposits at August 31, 2005, and during the year ended August 31, 2005, were entirely covered by FDIC insurance or by pledged collateral held by the charter holder's agent bank in the charter school's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depositories: Independent Bank and Guaranty National Bank
- b. At Independent Bank, the market value of securities pledged as of the date of the highest combined balance on deposit was \$1,381,120. No securities were pledged at Guaranty National Bank.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$1,459,929, and occurred during the month of May 2005. On this date, the balances at Independent Bank and Guaranty National Bank were \$1,439,482, and \$20,447, respectively.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$120,447.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 – Deposits which are insured or collateralized with securities held by the charter school or by its agent in the charter school's name.

Category 2 – Deposits that are collateralized with securities held by the pledging financial institution's trust department.

Category 3 – Deposits that are not collateralized or insured.

Based on these three levels of risk, the charter school's cash deposits at Independent Bank and Guaranty National Bank are classified as category 1.

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

3. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2005, the charter holder had no material liability for accrued sick leave or vacation leave.

4. PENSION PLAN

A. *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. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, 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 Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698 or by calling (800) 877-0123.

B. *Funding Policy*

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the charter school's covered payroll. The charter school's employees' contributions to the System for the years ending August 31, 2005, 2004 and 2003, were \$49,418, \$38,769, and \$38,475, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants for the years ending August 31, 2005, 2004 and 2003 were \$1,402, \$2,867, and \$5,317, respectively, equal to the required contributions for each year. The amount contributed by the state on behalf of the charter holder for the years ending August 31, 2005, 2004 and 2003, were \$52,421, \$39,067, and \$33,323, respectively.

C. *Additional plans*

Employees of the charter holder are also provided with Medicare coverage. Under provisions of federal law, covered employees contribute 1.45% of their annual covered salary, and the charter holder contributes matching amounts of the covered payroll.

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

5. HEATH CARE COVERAGE

During the year ended August 31, 2005, employees of the charter school were covered by a health insurance plan (the Plan). The charter school paid premiums on covered employees to the Plan of \$331 per month per employee. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

6. COMMITMENTS AND CONTINGENCIES

The charter school participates in numerous grant programs, which are governed by various rules and regulations of the grantor agencies. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the charter school has not complied with the complex rules and compliance requirements governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the charter school, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

7. CAPITAL ASSETS

Activity in the general fixed asset accounts for the charter school for the year ended August 31, 2005, was as follows:

	Balance <u>9/1/04</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>8/31/05</u>
Land	\$ 275,374	\$ -0-	\$ -0-	\$ 275,374
Buildings and Improvements	130,533	8,300	-0-	138,833
Vehicles and Equipment	142,833	31,220	-0-	174,053
Accumulated Depreciation	<u>(57,855)</u>	<u>(35,382)</u>	<u>-0-</u>	<u>(93,237)</u>
Total, Net	<u>\$ 490,885</u>	<u>\$ 4,138</u>	<u>\$ -0-</u>	<u>\$ 495,023</u>

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

8. ECONOMIC DEPENDENCY

During the year ended August 31, 2005, the charter school earned revenue of \$1,798,999 from the Texas Education Agency (TEA). This constitutes approximately 93.29% of total revenue earned. The loss of this charter agreement with TEA could have a material effect on the ability of the charter school to continue to provide the current level of services to its students.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ending August 31, 2005 and 2004, consisted of the following:

	<u>2005</u>	<u>2004</u>
State Funded Special Revenue Funds	\$ 1,930,692	\$ 1,499,844
Federally Funded Special Revenue Funds	69,114	67,748
Locally Funded Special Revenue Funds	<u>-0-</u>	<u>24,452</u>
Total	<u>\$ 1,999,806</u>	<u>\$ 1,592,044</u>

10. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for campuses and administrative offices require future rental payments as of August 31, 2005, as follows:

Year Ending <u>August 31,</u>	
2006	\$ 90,644
2007	<u>83,090</u>
Total Minimum Rentals	<u>\$173,734</u>
Rental Expenses in Fiscal Year 2005	<u>\$152,078</u>

**Specific-Purpose
Financial Statements**

THE EDUCATION CENTER CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2005 AND 2004

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash and cash equivalents	\$ 1,421,696	\$ 956,671
Due from Governments	100,736	132,677
Deferred Expenses	13,053	12,639
Total Current Assets	<u>1,535,485</u>	<u>1,101,987</u>
Property and Equipment, net	<u>495,023</u>	<u>490,885</u>
Total Assets	<u>\$ 2,030,508</u>	<u>\$ 1,592,872</u>
 <u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts Payable	\$ -	\$ 370
Payroll Deductions and Withholdings Payable	1,366	458
Deferred Revenue	-	-
Total Current Liabilities	<u>1,366</u>	<u>828</u>
Long Term Debt	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,366</u>	<u>828</u>
Net Assets (Deficit):		
Unrestricted	29,336	-
Temporarily Restricted	<u>1,999,806</u>	<u>1,592,044</u>
Total Net Assets (Deficit)	<u>2,029,142</u>	<u>1,592,044</u>
Total Liabilities and Net Assets	<u>\$ 2,030,508</u>	<u>\$ 1,592,872</u>

The accompanying notes are an integral part of these financial statements.

THE EDUCATION CENTER CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	Unrestricted	Temporarily Restricted	Totals	
			2005	2004
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 23,240	\$ -	\$ 23,240	\$ 20,468
5750 Cocurricular activities	11,778	-	11,778	11,198
Total local support	35,018	-	35,018	31,666
State program revenues:				
5810 Foundation School Program		1,777,670	1,777,670	1,506,873
5820 State Program Revenues Distributed by TEA		7,517	7,517	13,058
5830 State Revenues from Other State Agencies		13,812	13,812	11,146
Total state program revenues		1,798,999	1,798,999	1,531,077
Federal program revenues:				
5920 Federal Revenues Distributed by TEA		94,349	94,349	79,157
5930 Federal Revenues from Other State Agencies		-	-	52,564
Total federal program revenues		94,349	94,349	131,721
Net assets released from restrictions:				
Restrictions satisfied by payments	1,485,586	(1,485,586)	-	-
Total Revenues	\$ 1,520,604	\$ 407,762	\$ 1,928,366	\$ 1,694,464
Expenses				
11 Instruction	760,229		760,229	640,742
13 Curriculum and Instructional Staff Development	31,931		31,931	2,154
23 School Leadership	111,971		111,971	74,288
31 Guidance, Counseling, & Evaluation Services	-		-	1,000
34 Student Transportation	48,364		48,364	32,757
35 Food Services	30,619		30,619	22,330
36 Extracurricular Activities	3,491		3,491	5,377
41 General Administration	186,369		186,369	170,960
51 Plant Maintenance and Operations	314,124		314,124	291,847
52 Security and Monitoring Services	420		420	
53 Data Processing Services	3,750		3,750	10,317
Total Expenses	\$ 1,491,268	\$ -	\$ 1,491,268	\$ 1,251,772
Change in Net Assets	29,336	407,762	437,098	442,692
Net assets, beginning of year	-	1,592,044	1,592,044	1,149,352
Net assets, end of year	\$ 29,336	\$ 1,999,806	\$ 2,029,142	\$ 1,592,044

The accompanying notes are an integral part of these financial statements.

**THE EDUCATION CENTER CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2005 and 2004**

	2005	2004
Cash flows from operating activities		
Change in Net Assets	\$ 437,098	\$ 442,692
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	35,382	33,624
(Increase) Decrease in Due from Governments	31,941	8,787
(Increase) Decrease in Accrued Interest	-	154
(Increase) Decrease in Deferred Expenses	(414)	(12,639)
Increase (Decrease) in Accounts Payable	(370)	(5,505)
Increase (Decrease) in Payroll Deductions and Withholdings Payable	908	(645)
Increase (Decrease) in Deferred Revenue	-	(11,720)
	<u>504,545</u>	<u>454,748</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Purchase of Land	-	(274,874)
Purchase of Equipment and Buildings	(39,520)	(138,866)
	<u>(39,520)</u>	<u>(413,740)</u>
Net cash provided (used) by investing activities		
Cash flows from financing activities		
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	465,025	41,008
Cash and cash equivalents, Beginning of Year	<u>956,671</u>	<u>915,663</u>
Cash and cash equivalents, End of Year	<u>\$ 1,421,696</u>	<u>\$ 956,671</u>
Income taxes paid during the period ended August 31, 2005 and 2004.	None	None
Interest paid during the period ended August 31, 2005 and 2004.	None	None

The accompanying notes are an integral part of these financial statements.

**Required
Supplementary
Information**

**THE EDUCATION CENTER CHARTER SCHOOL
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2005 and 2004**

	Totals	
	<u>2005</u>	<u>2004</u>
Expenses		
6100 Payroll Costs	\$ 1,008,043	\$ 761,996
6200 Professional and Contracted Services	297,632	263,471
6300 Supplies and Materials	118,350	154,443
6400 Other Operating Costs	67,243	71,633
6500 Debt	-	229
Total Expenses	<u>\$ 1,491,268</u>	<u>\$ 1,251,772</u>

The accompanying notes are an integral part of these financial statements.

THE EDUCATION CENTER CHARTER SCHOOL
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED AUGUST 31, 2005

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 275,374	\$ -
1520 Buildings and Improvements		138,833	
1531 Vehicles		37,288	77,067
1539 Furniture and Equipment		15,978	12,500
1560 Library Books and Media		23,917	7,303
1579 Less accumulated depreciation		(65,148)	(28,089)
Total Property and Equipment	\$ -	\$ 426,242	\$ 68,781

The accompanying notes are an integral part of these financial statements.

**THE EDUCATION CENTER CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 11,000	\$ 20,485	\$ 23,240	\$ 2,755
5750 Cocurricular activities	11,000	15,778	11,778	(4,000)
Total local support	<u>22,000</u>	<u>36,263</u>	<u>35,018</u>	<u>(1,245)</u>
State program revenues:				
5810 Foundation School Program	1,373,466	1,737,965	1,777,670	39,705
5820 State Program Revenues Distributed by TEA	-	7,517	7,517	0
5830 State Revenues from Other State Agencies	-	62,555	13,812	(48,743)
Total state program revenues	<u>1,373,466</u>	<u>1,808,037</u>	<u>1,798,999</u>	<u>(9,038)</u>
Federal program revenues:				
5920 Federal Revenues Distributed by TEA	70,210	91,438	94,349	2,911
5930 Federal Revenues from Other State Agencies	-	-	-	-
Total federal program revenues	<u>70,210</u>	<u>91,438</u>	<u>94,349</u>	<u>2,911</u>
Total Revenues	<u>\$ 1,465,676</u>	<u>\$ 1,935,738</u>	<u>\$ 1,928,366</u>	<u>\$ (7,372)</u>
Expenses				
11 Instruction	656,660	1,115,328	760,229	355,099
13 Curriculum and Instructional Staff Development	10,250	51,664	31,931	19,733
23 School Leadership	56,000	132,069	111,971	20,098
31 Guidance, Counseling, & Evaluation Services	16,500	9,293	-	9,293
34 Student Transportation	20,600	41,372	48,364	(6,992)
35 Food Services	30,200	34,801	30,619	4,182
36 Extracurricular Activities	6,450	5,393	3,491	1,902
41 General Administration	183,400	209,641	186,369	23,272
51 Plant Maintenance and Operations	280,000	332,520	314,124	18,396
52 Security and Monitoring Services	500	500	420	80
53 Data Processing Services	5,000	5,000	3,750	1,250
Total Expenses	<u>\$ 1,265,560</u>	<u>\$ 1,937,581</u>	<u>\$ 1,491,268</u>	<u>\$ 446,313</u>
Change in Net Assets	200,116	(1,843)	437,098	438,941
Net assets, beginning of year	<u>1,592,044</u>	<u>1,592,044</u>	<u>1,592,044</u>	<u>-</u>
Net assets, end of year	<u>\$ 1,792,160</u>	<u>\$ 1,590,201</u>	<u>\$ 2,029,142</u>	<u>\$ 438,941</u>

The accompanying notes are an integral part of these financial statements.

**Compliance
and
Internal Control**

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FREEMON, SHAPARD & STORY
CERTIFIED PUBLIC ACCOUNTANTS

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Windthorst, Texas 76389
(940) 423-6226 Fax (940) 423-6326

H. Ted Neeb, CPA
Donna Hoff, CPA
Thea Neeb, CPA
Natalie Rounsaville, CPA

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

Board of Directors
Salvaging Teens at Risk, Inc.
5901 Crestwood Place
Little Elm, Texas 75068

Members of the Board of Directors:

We have audited the financial statements of Salvaging Teens at Risk, Inc. (the charter holder) as of and for the year ended August 31, 2005, and have issued our report thereon dated November 16, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the charter holder's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that

misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the district's trustees, the audit committee, the administration, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than those specified parties.

Respectfully submitted,

Freemon, Shapard and Story

Freemon, Shapard & Story
November 16, 2005

**SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2005**

I. Summary of Auditor's Results

- a. Type of auditor's report issued on the financial statements of Salvaging Teens at Risk, Inc. was an unqualified opinion.
- b. There were no reportable conditions in internal control or material weaknesses in internal control disclosed by the audit of the financial statements.
- c. The audit disclosed no instances of noncompliance which are material to the financial statements of the auditee.
- d. Under the guidelines of OMB circular A-133, a Single Audit was not required for the year ended August 31, 2005.

II. Findings relating to the financial statements, which are required to be reported in accordance with generally accepted government auditing standards.

<u>Program</u>	<u>Finding/Noncompliance</u>
None identified.	

III. Findings and questioned costs for state and federal awards

None identified.

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2005

<u>Findings/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<u>Finding 2004-1</u> Fund 240, 411 and 418 were not included in the 2003-04 budget.	Corrected	

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2005

<u>Finding Number</u>	<u>Contact Person</u>	<u>Corrective Action Planned</u>	<u>Anticipated Completion Date</u>
Not applicable			

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