

SALVAGING TEENS AT RISK, INC.  
DBA THE EDUCATION CENTER

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

AUGUST 31, 2006

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SALVAGING TEENS AT RISK, INC.  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2006

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SALVAGING TEENS AT RISK, INC.

CERTIFICATE OF BOARD

AUGUST 31, 2006

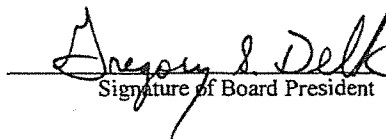
Salvaging Teens at Risk, Inc.  
Name of Charter Holder  
Federal EIN: 75-2727881

Denton  
County

061802  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named charter school were reviewed and (check one)  approved  disapproved for the year ended August 31, 2006, at a meeting of the Board of Trustees of such charter school on the 23 day of January, 2007.

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

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

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is(are):  
(attach list as necessary)

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**FREEMON, SHAPARD & STORY**  
CERTIFIED PUBLIC ACCOUNTANTS

2088 Zihlman Road  
Windthorst, Texas 76389  
Ph. (940) 423-6226  
Fax (940) 423-6326

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

**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
Salvaging Teens at Risk, Inc.  
100 East Park, Suite A  
Little Elm, TX 75068

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, 2006. These general-purpose financial statements are the responsibility of The 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 August 31, 2005 financial statements and, in our report dated November 16, 2005, we expressed an unqualified opinion on those 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 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, 2006, and the respective changes in net assets and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2007, on our consideration of Salvaging Teens at Risk, Inc.'s (The Charter Holder) 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 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  
January 5, 2007



**General-Purpose  
Financial Statements**

**SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF AUGUST 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,881,890	\$ 1,421,696
Due from governments	173,563	100,736
Deferred expenses	15,238	13,053
Other receivables	<u>958</u>	<u>-</u>
Total Current Assets	<u>2,071,649</u>	<u>1,535,485</u>
Property and Equipment, net:	<u>498,380</u>	<u>495,023</u>
Other Assets:	<u>1,150</u>	<u>-</u>
Total Assets	<u>\$ 2,571,179</u>	<u>\$ 2,030,508</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Payroll deductions and withholdings payable	\$ <u>1,037</u>	\$ <u>1,366</u>
Total Current Liabilities	<u>1,037</u>	<u>1,366</u>
Net Assets (Deficit):		
Unrestricted	29,336	29,336
Temporarily restricted	<u>2,540,806</u>	<u>1,999,806</u>
Total Net Assets (Deficit)	<u>2,570,142</u>	<u>2,029,142</u>
Total Liabilities and Net Assets	<u>\$ 2,571,179</u>	<u>\$ 2,030,508</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, 2006 AND 2005**

	Unrestricted	Temporarily Restricted	Totals	
			2006	2005
<b>REVENUES</b>				
Local Support:				
Interest and other income	\$ 18,963	\$ -	\$ 18,963	\$ 3,824
Revenues from cocurricular, enterprising	28,599	-	28,599	11,778
Other revenues from local sources	<u>2,644</u>	<u>-</u>	<u>2,644</u>	<u>19,416</u>
Total Local Support	50,206	-	50,206	35,018
State Program Revenues:				
Foundation school program	-	1,905,815	1,905,815	1,777,670
Other state aid	<u>-</u>	<u>22,247</u>	<u>22,247</u>	<u>21,329</u>
Total State Program Revenues	-	1,928,062	1,928,062	1,798,999
Federal Program Revenues:				
ESEA Title IV	-	1,060	1,060	668
ESEA Title I, Part A	-	29,386	29,386	16,455
IDEA Part B	-	48,939	48,939	42,391
Child Nutrition	-	26,135	26,135	25,754
ESEA Title II, Part A	-	7,763	7,763	8,022
ESEA Title II, Part D	-	346	346	438
Title V, Part A	<u>-</u>	<u>589</u>	<u>589</u>	<u>621</u>
Total Federal Program Revenues	-	114,218	114,218	94,349
Gain/Loss on Sale of Assets:	<u>-</u>	<u>(1,039)</u>	<u>(1,039)</u>	<u>-</u>
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	<u>1,500,241</u>	<u>(1,500,241)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 1,550,447</u>	<u>\$ 541,000</u>	<u>\$ 2,091,447</u>	<u>\$ 1,928,366</u>
<b>EXPENSES</b>				
Program Services:				
Instruction and instructional related services	856,958	-	856,958	792,161
Instructional and school leadership	92,683	-	92,683	111,971
Support Services:				
Administrative support services	174,231	-	174,231	186,369
Support services - non-student based	315,606	-	315,606	318,293
Support services - student (pupil)	<u>110,969</u>	<u>-</u>	<u>110,969</u>	<u>82,474</u>
Total Expenses	<u>\$ 1,550,447</u>	<u>\$ -</u>	<u>\$ 1,550,447</u>	<u>\$ 1,491,268</u>
Change in Net Assets	-	541,000	541,000	437,098
Net Assets, Beginning of Year	<u>29,336</u>	<u>1,999,806</u>	<u>2,029,142</u>	<u>1,592,044</u>
Net Assets, End of Year	<u>\$ 29,336</u>	<u>\$ 2,540,806</u>	<u>\$ 2,570,142</u>	<u>\$ 2,029,142</u>

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

**SALVAGING TEENS AT RISK, INC. (THE CHARTER SCHOOL)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 541,000	\$ 437,098
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	29,714	35,382
(Increase) decrease in due from governments	(72,827)	31,941
(Increase) decrease in deferred expenses	(2,185)	(414)
(Increase) decrease in other receivables	(958)	-
(Increase) decrease in other assets	(1,150)	-
Increase (decrease) in accounts payable	-	(370)
Increase (decrease) in payroll deductions and withholdings payable	(329)	908
	<u>493,265</u>	<u>504,545</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities		
Purchase of Equipment and Buildings	(41,689)	(39,520)
Disposition of Equipment and Buildings	8,618	-
	<u>(33,071)</u>	<u>(39,520)</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	460,194	465,025
Cash and Cash Equivalents, Beginning of Year	<u>1,421,696</u>	<u>956,671</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,881,890</u>	<u>\$ 1,421,696</u>
Income taxes paid during the period ended August 31, 2006 and 2005.	None	None
Interest paid during the period ended August 31, 2006 and 2005.	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, 2006**

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, 2006**

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, 2006**

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, 2006**

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, 2006, the carrying amount of the charter holder's deposits (cash, certificates of deposit and interest-bearing savings accounts included in temporary investments) was \$1,881,890, and the bank balance was \$2,056,855 (depository accounts-\$1,543,171 and certificates of deposit and money markets-\$513,684). The charter school's cash deposits at August 31, 2006, and during the year ended August 31, 2006, 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, Guaranty National Bank and Edward Jones.
- b. At Independent Bank, the market value of securities pledged as of the date of the highest combined balance on deposit was \$1,544,543. No securities were pledged at Guaranty National Bank or Edward Jones.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$2,056,855, and occurred during the month of August 2006. On this date, the balances at Independent Bank, Guaranty National Bank and Edward Jones were \$1,522,724, \$20,447 and \$513,684, respectively.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$634,131 (multiple bank certificates of deposit at Edward Jones).

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, Guaranty National Bank and Edward Jones (multiple bank certificates of deposit) are classified as category 1.

**SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2006**

3. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2006, 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, 2006, 2005 and 2004, were \$52,470, \$49,418, and \$38,769, 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, 2006, 2005 and 2004 were \$2,825, \$1,402, and \$2,867, 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, 2006, 2005 and 2004, were \$54,093, \$52,421, and \$39,067, 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, 2006**

5. HEATH CARE COVERAGE

During the year ended August 31, 2006, 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 holder for the year ended August 31, 2006, was as follows:

	Balance <u>9/1/2005</u>	<u>Additions</u>	<u>Deletions</u>	Change in Capitalization Policy	Balance <u>8/31/2006</u>
Land	\$ 275,374	\$ -	\$ -	\$ -	\$ 275,374
Buildings and Improvements	138,833	-	-	-	138,833
Vehicles and Equipment	174,053	41,689	(7,622)	(1,206)	206,914
Accumulated Depreciation	<u>(93,237)</u>	<u>(29,714)</u>	-	210	<u>(122,741)</u>
Total, Net	<u>\$ 495,023</u>	<u>\$ 11,975</u>	<u>\$ (7,622)</u>	<u>\$ (996)</u>	<u>\$ 498,380</u>

In the past the charter school capitalized all assets with a useful life of three years or more. During the year ending August 31, 2006, a new capitalization policy was adopted which includes only assets with a cost equal to or greater than \$5,000. Therefore, various assets with original costs less than \$5,000 are no longer considered capital assets and were removed from the fixed asset amount. This change in capitalization policy resulted in a loss of \$996.

**SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2006**

8. ECONOMIC DEPENDENCY

During the year ended August 31, 2006, the charter school earned revenue of \$1,928,062 from the Texas Education Agency (TEA). This constitutes approximately 92.1% of total revenue earned. Any unforeseen loss of this charter agreement with TEA or changes in legislative funding 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, 2006 and 2005, consisted of the following:

	<u>2006</u>	<u>2005</u>
State Funded Special Revenue Funds	\$ 2,482,519	\$ 1,930,692
Federally Funded Special Revenue Funds	58,287	69,114
Locally Funded Special Revenue Funds	<u>-0-</u>	<u>-0-</u>
 Total	 <u>\$ 2,540,806</u>	 <u>\$ 1,999,806</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, 2006, as follows:

<u>Year Ending</u> <u>August 31,</u>	
2007	\$ 245,932
2008	85,800
Thereafter	57,775
 Total Minimum Rentals	 <u>\$389,507</u>
 Rental Expenses in Fiscal Year 2006	 <u>\$164,045</u>

**Specific-Purpose  
Financial Statements**

**THE EDUCATION CENTER CHARTER SCHOOL  
STATEMENT OF FINANCIAL POSITION  
AS OF AUGUST 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,881,890	\$ 1,421,696
Due from governments	173,563	100,736
Deferred expenses	15,238	13,053
Other receivables	958	-
Total Current Assets	<u>2,071,649</u>	<u>1,535,485</u>
Property and Equipment, net:	<u>498,380</u>	<u>495,023</u>
Other Assets:	<u>1,150</u>	<u>-</u>
Total Assets	<u>\$ 2,571,179</u>	<u>\$ 2,030,508</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Payroll deductions and withholdings payable	\$ <u>1,037</u>	\$ <u>1,366</u>
Total Current Liabilities	<u>1,037</u>	<u>1,366</u>
Net Assets (Deficit):		
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Total Liabilities and Net Assets	<u>\$ 2,571,179</u>	<u>\$ 2,030,508</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, 2006 AND 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2006</u>	<u>Totals 2005</u>
<b>REVENUES</b>				
Local Support:				
5740 Other revenues from local sources	\$ 21,607	\$ -	\$ 21,607	\$ 23,240
5750 Cocurricular activities	<u>28,599</u>	<u>-</u>	<u>28,599</u>	<u>11,778</u>
Total Local Support	50,206	-	50,206	35,018
State Program Revenues:				
5810 Foundation school program	-	1,905,815	1,905,815	1,777,670
5820 State program revenues distributed by TEA	-	11,351	11,351	7,517
5830 State revenues from other state agencies	<u>-</u>	<u>10,896</u>	<u>10,896</u>	<u>13,812</u>
Total state program revenues		1,928,062	1,928,062	1,798,999
Federal Program Revenues:				
5920 Federal revenues distributed by TEA	<u>-</u>	<u>114,218</u>	<u>114,218</u>	<u>94,349</u>
Gain/ Loss on Sale of Assets:	<u>-</u>	<u>(1,039)</u>	<u>(1,039)</u>	<u>-</u>
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	<u>1,500,241</u>	<u>(1,500,241)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 1,550,447</u>	<u>\$ 541,000</u>	<u>\$ 2,091,447</u>	<u>\$ 1,928,366</u>
<b>EXPENSES</b>				
11 Instruction	844,355	-	844,355	760,229
13 Curriculum and instructional staff development	12,603	-	12,603	31,931
23 School leadership	92,683	-	92,683	111,971
31 Guidance, counseling, and evaluation services	188	-	188	-
34 Student transportation	50,835	-	50,835	48,364
35 Food services	41,187	-	41,187	30,619
36 Extracurricular activities	18,759	-	18,759	3,491
41 General administration	174,231	-	174,231	186,369
51 Plant maintenance and operations	307,682	-	307,682	314,124
52 Security and monitoring services	424	-	424	420
53 Data processing services	<u>7,500</u>	<u>-</u>	<u>7,500</u>	<u>3,750</u>
Total Expenses	<u>\$ 1,550,447</u>	<u>\$ -</u>	<u>\$ 1,550,447</u>	<u>\$ 1,491,268</u>
Change in Net Assets	-	541,000	541,000	437,098
Net Assets, Beginning of Year	<u>29,336</u>	<u>1,999,806</u>	<u>2,029,142</u>	<u>1,592,044</u>
Net Assets, End of Year	<u>\$ 29,336</u>	<u>\$ 2,540,806</u>	<u>\$ 2,570,142</u>	<u>\$ 2,029,142</u>

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

**THE EDUCATION CENTER CHARTER SCHOOL  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 541,000	\$ 437,098
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	29,714	35,382
(Increase) decrease in due from governments	(72,827)	31,941
(Increase) decrease in deferred expenses	(2,185)	(414)
(Increase) decrease in other receivables	(958)	-
(Increase) decrease in other assets	(1,150)	-
Increase (decrease) in accounts payable	-	(370)
Increase (decrease) in payroll deductions and withholdings payable	(329)	908
 Net Cash Provided (Used) by Operating Activities	 <u>493,265</u>	 <u>504,545</u>
Cash Flows from Investing Activities		
Purchase of Equipment and Buildings	(41,689)	(39,520)
Disposition of Equipment and Buildings	8,618	-
 Net Cash Provided (Used) by Investing Activities	 <u>(33,071)</u>	 <u>(39,520)</u>
Cash Flows from Financing Activities		
Net Cash Provided (Used) by Financing Activities	-	-
 Net Increase (Decrease) in Cash and Cash Equivalents	 460,194	 465,025
Cash and Cash Equivalents, Beginning of Year	<u>1,421,696</u>	<u>956,671</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,881,890</u>	<u>\$ 1,421,696</u>
 Income taxes paid during the period ended August 31, 2006 and 2005.	 None	 None
Interest paid during the period ended August 31, 2006 and 2005.	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, 2006 and 2005**

	Totals	
	<u>2006</u>	<u>2005</u>
<b>Expenses</b>		
6100 Payroll Costs	\$ 993,481	\$ 1,008,043
6200 Professional and Contracted Services	346,869	297,632
6300 Supplies and Materials	146,810	118,350
6400 Other Operating Costs	63,287	67,243
Total Expenses	\$ <u>1,550,447</u>	\$ <u>1,491,268</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, 2006**

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 275,374	\$ -
1520 Buildings and Improvements	-	138,833	-
1531 Vehicles	-	53,895	70,000
1539 Furniture and Equipment	-	32,762	19,567
1560 Library Books and Media	-	23,917	6,773
1579 Less accumulated depreciation	-	(82,879)	(39,862)
Total Property and Equipment	<u>\$ -</u>	<u>\$ 441,902</u>	<u>\$ 56,478</u>

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, 2006**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other revenues from local sources	\$ 11,500	\$ 11,500	\$ 21,607	\$ 10,107
5750 Cocurricular activities	7,800	28,599	28,599	-
Total Local Support	19,300	40,099	50,206	10,107
State Program Revenues:				
5810 Foundation school program	1,737,965	1,841,572	1,905,815	64,243
5820 State program revenues distributed by TEA	232	11,351	11,351	-
5830 State revenues from other state agencies	-	14,500	10,896	(3,604)
Total State Program Revenues	1,738,197	1,867,423	1,928,062	60,639
Federal Program Revenues:				
5920 Federal revenues distributed by TEA	24,000	114,584	114,218	(366)
Total Federal Program Revenues	24,000	114,584	114,218	(366)
Gain/Loss on Sale of Assets:	-	-	(1,039)	(1,039)
Total Revenues	\$ 1,781,497	\$ 2,022,106	\$ 2,091,447	\$ 69,341
<b>EXPENSES</b>				
11 Instruction	999,286	1,162,435	844,355	318,080
13 Curriculum and instructional staff development	49,926	51,190	12,603	38,587
23 School leadership	114,740	118,976	92,683	26,293
31 Guidance, counseling, & evaluation services	11,000	6,200	188	6,012
34 Student transportation	45,530	61,250	50,835	10,415
35 Food services	32,032	41,187	41,187	-
36 Extracurricular activities	1,950	20,105	18,759	1,346
41 General administration	203,788	204,498	174,231	30,267
51 Plant maintenance and operations	307,745	340,765	307,682	33,083
52 Security and monitoring services	500	500	424	76
53 Data processing services	15,000	15,000	7,500	7,500
Total Expenses	\$ 1,781,497	\$ 2,022,106	\$ 1,550,447	\$ 471,659
Change in Net Assets	-	-	541,000	541,000
Net Assets, Beginning of Year	2,029,142	2,029,142	2,029,142	-
Net Assets, End of Year	\$ 2,029,142	\$ 2,029,142	\$ 2,570,142	\$ 541,000

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

2088 Zihlman Road  
Windthorst, Texas 76389  
Ph. (940) 423-6226  
Fax (940) 423-6326

H. Ted Neeb, CPA  
Donna Hoff, CPA  
Thea Neeb, 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.  
100 East Park, Suite A  
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, 2006, and have issued our report thereon dated January 5, 2007. 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  
January 5, 2007



SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2006

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, 2006.

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>
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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, 2006**

<u>Findings/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None Identified		

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2006

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

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FREEMON, SHAPARD & STORY  
CERTIFIED PUBLIC ACCOUNTANTS

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Donna Hoff, CPA  
Thea Neeb, 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.  
100 East Park, Suite A  
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, 2006, and have issued our report thereon dated January 5, 2007. 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  
January 5, 2007

**SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2006**

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, 2006.

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.

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**SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED AUGUST 31, 2006**

<u>Findings/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None Identified		



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SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2006

<u>Finding Number</u>	<u>Contact Person</u>	<u>Corrective Action Planned</u>	<u>Anticipated Completion Date</u>
---------------------------	---------------------------	----------------------------------	--

Not applicable.

FREEMON, SHAPARD & STORY  
CERTIFIED PUBLIC ACCOUNTANTS

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

January 5, 2007

The Board of Directors  
Salvaging Teens at Risk, Inc.  
100 East Park, Suite A  
Little Elm, TX 75068

Board Members:

In planning and performing our audit of the financial statements of the Salvaging Teens at Risk, Inc. (the Charter Holder) for the year ended August 31, 2006, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiently. (We previously reported on the Organization's internal control in our report dated January 5, 2007.) This letter does not affect our report dated January 5, 2007, on the financial statements of the Salvaging Teens at Risk, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestion with various Organization personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

I. Account Codes

We noted that the Charter School was not consistent in expensing rent/lease and insurance expenditures to the correct object code. We suggest the Charter School use accurate TEA account codes when recording these expenses.

II. Personnel files

In a sample of seven employees, there were three employee which had no approved employee contract on file. We recommend having the most updated employee contract on file and make note of any changes for future reference during the year.

III. Accounting Software

During our review of the detail year-to-date general ledger, we noted that there was no vendor detail within the report. We recommend modifying the software to list the vendor detail so the Charter School will be able to better utilize these reports.

IV. Board Training

It is recommended that the Charter School maintain a recap of the board member's training. This will ensure that all training obtained by the board members throughout the year will be recorded and allow the school to track and ensure that this TEA requirement is met.

**CONCLUSION**

We would like to point out that this letter is merely to present areas of suggested improvement to the attention of the Board. We would like to thank the Board for allowing us to perform this audit. The staff was extremely helpful and was always willing to answer our questions. We are available throughout the year to assist you in any manner possible. We are available to assist the School with designing and implementing new and improved procedures or problem investigations. Should you need our assistance in any of these areas, please do not hesitate to call us.

Sincerely,

*Freemon, Shapard and Story*

Freemon, Shapard and Story  
Certified Public Accountants

**The Education Center**  
100 E. Park Street – Suite A  
Little Elm, TX 75068  
PH (972) 292-2405 FAX (927) 292-2373



January 24, 2007

Division of School Financial Audits  
Texas Education Agency  
1701 North Congress Avenue  
Austin, Texas 78701-1494

To Whom It May Concern:

You will find two board-approved School Financial Audits for the 2005-2006 school year enclosed. Also, please accept this cover letter as explanation of the reasons a number of the final budgeted expense amounts for the year varied more than 10% from the original budgeted amounts.

Expense code 11 was changed from \$999,286 to \$1,162,435 because the board expected the cost of instruction to be much greater than it was. In actuality, the school spent \$844,355 on instruction.

Expense code 34 (School Transportation) had to be increased substantially due the rising cost of fuel.

Expense code 35 (Food Services) was increased because the cost of fuel caused the amount spent for food to rise.

Expense code 36 (Extracurricular Activities) had to be increased because the schools decided to purchase athletic uniforms that could be used for multiple years rather than having the students purchase theirs each year.

Expense code 51 (Plant Maintenance and Operations) was increased because of the rising cost of utilities and minor remodeling of facilities.

Sincerely yours,

Nick Farley  
Chief Executive Officer.

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Little Elm, TX 75068  
(972) 292-3562

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5201 South Colony Blvd., Ste. 545  
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