
**SAVAGING TEENS AT RISK, INC.
DBA THE EDUCATION CENTER**

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

AUGUST 31, 2007

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SALVAGING TEENS AT RISK, INC.
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2007

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SALVAGING TEENS AT RISK, INC.

CERTIFICATE OF BOARD

AUGUST 31, 2007

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, 2007, at a meeting of the Board of Trustees of such charter school on the _____ day of January, 2008.

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

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Windthorst, Texas 76389
Ph. (940) 423-6226
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H. Ted Neeb, CPA
Donna Hoff, CPA
Thea Neeb, CPA
Bryan Hart, 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, 2007. 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, 2006 financial statements and, in our report dated January 5, 2007 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, 2007, 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 December 7, 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
December 7, 2007

**General-Purpose
Financial Statements**

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2007 AND 2006

	2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,969,965	\$ 1,881,890
Due from governments	149,597	173,563
Deferred expenses	-	15,238
Other receivables	-	958
Total Current Assets	2,119,562	2,071,649
Property and Equipment, net:	1,419,427	498,380
Other Assets:		
Capitalized debt issuance cost	2,126	-
Other Assets	17,650	1,150
Total Other Assets	19,776	1,150
Total Assets	\$ 3,558,765	\$ 2,571,179
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 40,571	\$ -
Payroll deductions and withholdings payable	2,191	1,037
Current maturities long term debt	30,102	-
Total Current Liabilities	72,864	1,037
Lone Term Debt:	390,572	-
Net Assets (Deficit):		
Unrestricted	29,336	29,336
Temporarily restricted	3,065,993	2,540,806
Total Net Assets (Deficit)	3,095,329	2,570,142
Total Liabilities and Net Assets	\$ 3,558,765	\$ 2,571,179

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, 2007 AND 2006

	Unrestricted	Temporarily Restricted	Totals	
			2007	2006
REVENUES				
Local Support:				
Interest and other income	\$ 27,781	\$ -	\$ 27,781	\$ 18,963
Revenues from cocurricular, enterprising	33,936	-	33,936	28,599
Other revenues from local sources	5,867	-	5,867	2,644
Total Local Support	67,584	-	67,584	50,206
State Program Revenues:				
Foundation school program	-	2,298,621	2,298,621	1,905,815
Other state aid	-	12,357	12,357	22,247
Total State Program Revenues	-	2,310,978	2,310,978	1,928,062
Federal Program Revenues:				
ESEA Title IV	-	871	871	1,060
ESEA Title I, Part A	-	25,545	25,545	29,386
IDEA Part B	-	51,514	51,514	48,939
Child Nutrition	-	33,302	33,302	26,135
ESEA Title II, Part A	-	10,446	10,446	7,763
ESEA Title II, Part D	-	993	993	346
Title V, Part A	-	605	605	589
Total Federal Program Revenues	-	123,276	123,276	114,218
Gain/Loss on Sale of Assets:	-	(688)	(688)	(1,039)
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	1,908,379	(1,908,379)	-	-
Total Revenues	\$ 1,975,963	\$ 525,187	\$ 2,501,150	\$ 2,091,447
EXPENSES				
Program Services:				
Instruction and instructional related services	1,038,355	-	1,038,355	856,958
Instructional and school leadership	136,848	-	136,848	92,683
Support Services:				
Administrative support services	228,405	-	228,405	174,231
Support services - non-student based	434,459	-	434,459	315,606
Support services - student (pupil)	137,896	-	137,896	110,969
Total Expenses	\$ 1,975,963	\$ -	\$ 1,975,963	\$ 1,550,447
Change in Net Assets	-	525,187	525,187	541,000
Net Assets, Beginning of Year	29,336	2,540,806	2,570,142	2,029,142
Net Assets, End of Year	\$ 29,336	\$ 3,065,993	\$ 3,095,329	\$ 2,570,142

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 525,187	\$ 541,000
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	38,987	29,714
(Increase) decrease in due from governments	23,966	(72,827)
(Increase) decrease in deferred expenses	15,238	(2,185)
(Increase) decrease in other receivables	958	(958)
(Increase) decrease in capitalized debt issuance cost	(2,126)	-
(Increase) decrease in other assets	(16,500)	(1,150)
Increase (decrease) in accounts payable	40,571	-
Increase (decrease) in payroll deductions and withholdings payable	1,154	(329)
Net Cash Provided (Used) by Operating Activities	<u>627,435</u>	<u>493,265</u>
Cash Flows from Investing Activities		
Purchase of Equipment and Buildings	(962,222)	(41,689)
Disposition of Equipment and Buildings	2,188	8,618
Net Cash Provided (Used) by Investing Activities	<u>(960,034)</u>	<u>(33,071)</u>
Cash Flows from Financing Activities		
Loan proceeds	430,000	-
Principal repayments on debt	(9,326)	-
Net Cash Provided (Used) by Financing Activities	<u>420,674</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	88,075	460,194
Cash and Cash Equivalents, Beginning of Year	<u>1,881,890</u>	<u>1,421,696</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,969,965</u>	<u>\$ 1,881,890</u>
Income taxes paid during the period ended August 31, 2007 and 2006.	None	None
Interest paid during the period ended August 31, 2007 and 2006.	\$ 11,400	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, 2007**

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. Subsequent to the awarding of the initial charter, the corporation applied for and received a second charter renewal in September 2007 extending the charter ten years to July 31, 2015.

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, 2007

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, 2007

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, 2007

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, 2007, the carrying amount of the charter holder's deposits (cash, certificates of deposit and interest-bearing savings accounts included in temporary investments) was \$1,969,965, and the bank balance was \$2,222,460 (depository accounts-\$1,686,299 and certificates of deposit and money markets-\$536,161). The charter school's cash deposits at August 31, 2007, and during the year ended August 31, 2007, 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 \$2,013,279. 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 \$2,514,223, and occurred during the month of April 2007. On this date, the balances at Independent Bank, Guaranty National Bank and Edward Jones were \$1,963,115, \$20,447 and \$530,661, respectively.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$651,108 (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, 2007

3. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2007, 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, 2007, 2006, and 2005, were \$63,058, \$52,470, and \$49,418, 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, 2007, 2006, and 2005 were \$5,707, \$2,825, and \$1,402, 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, 2007, 2006, and 2005, were \$62,355, \$54,093, and \$52,421, 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.

5. HEALTH CARE COVERAGE

During the year ended August 31, 2007, 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.

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2007

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, 2007, was as follows:

	<u>Balance</u> <u>9/1/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2007</u>
Land	\$ 275,374	\$ 187,624	\$ -	\$ 462,998
Buildings and Improvements	138,833	749,598	-	888,431
Vehicles and Equipment	206,914	25,000	(6,000)	225,914
Accumulated Depreciation	<u>(122,741)</u>	<u>(38,987)</u>	<u>3,812</u>	<u>(157,916)</u>
Total, Net	\$ <u>498,380</u>	\$ <u>923,235</u>	\$ <u>(2,188)</u>	\$ <u>1,419,427</u>

8. ECONOMIC DEPENDENCY

During the year ended August 31, 2007, the charter school earned revenue of \$2,310,978 from the Texas Education Agency (TEA). This constitutes approximately 92% 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:

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ending August 31, 2007 and 2006, consisted of the following:

	<u>2007</u>	<u>2006</u>
State Funded Special Revenue Funds	\$ 3,021,307	\$ 2,482,519
Federally Funded Special Revenue Funds	44,686	58,287
Locally Funded Special Revenue Funds	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 3,065,993</u>	<u>\$ 2,540,806</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, 2007, as follows:

Fiscal year ending August 31:	<u>Minimum Payment</u>
2008	\$ 236,000
2009	136,600
2010	42,750
Thereafter	<u>-</u>
Total Minimum Rentals	<u>\$ 415,350</u>
Rental Expenses in Fiscal Year 2007	<u>\$ 194,431</u>

10. LONG-TERM DEBT

Long-term debt at August 31, 2007, consists of the following:

\$430,000 real estate note payable to Independent Bank, 7.75% interest, commencing May 1, 2007. Loan is secured by a first lien on property located at 968 Raldon Road, Lewisville, Texas. Monthly payments are \$5,182 based on 10 year amortization.

Principal balance	\$ 420,674
Less current maturities	<u>(30,102)</u>
Long-term debt	<u>\$ 390,572</u>

SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

Future maturities of long-term debt at August 31, 2007 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 30,102	\$ 32,076	\$ 62,178
2009	32,563	29,615	62,178
2010	35,225	26,953	62,178
2011	38,104	24,074	62,178
2012	41,219	20,959	62,178
Thereafter	<u>243,461</u>	<u>48,361</u>	<u>291,822</u>
	<u>\$ 420,674</u>	<u>\$ 182,038</u>	<u>\$ 602,712</u>

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**Specific-Purpose
Financial Statements**

**THE EDUCATION CENTER CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2007 AND 2006**

	2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,969,965	\$ 1,881,890
Due from governments	149,597	173,563
Deferred expenses	-	15,238
Other receivables	-	958
Total Current Assets	2,119,562	2,071,649
Property and Equipment, net:	1,419,427	498,380
Other Assets:		
Capitalized debt issuance cost	2,126	-
Other Assets	17,650	1,150
Total Other Assets	19,776	1,150
Total Assets	\$ 3,558,765	\$ 2,571,179
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 40,571	\$ -
Payroll deductions and withholdings payable	2,191	1,037
Current maturities long term debt	30,102	-
Total Current Liabilities	72,864	1,037
Lone Term Debt:	390,572	-
Net Assets (Deficit):		
Unrestricted	29,336	29,336
Temporarily restricted	3,065,993	2,540,806
Total Net Assets (Deficit)	3,095,329	2,570,142
Total Liabilities and Net Assets	\$ 3,558,765	\$ 2,571,179

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, 2007 AND 2006

	Unrestricted	Temporarily Restricted	Totals	
			2007	2006
REVENUES				
Local Support:				
5740 Other revenues from local sources	\$ 33,648	\$ -	\$ 33,648	\$ 21,607
5750 Cocurricular activities	33,936	-	33,936	28,599
Total Local Support	67,584	-	67,584	50,206
State Program Revenues:				
5810 Foundation school program	-	2,298,621	2,298,621	1,905,815
5820 State program revenues distributed by TEA	-	12,357	12,357	11,351
5830 State revenues from other state agencies	-	-	-	10,896
Total State Program Revenues		2,310,978	2,310,978	1,928,062
Federal Program Revenues:				
5920 Federal revenues distributed by TEA	-	123,276	123,276	114,218
Total Federal Program Revenues	-	123,276	123,276	114,218
Gain/ Loss on Sale of Assets:	-	(688)	(688)	(1,039)
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	1,908,379	(1,908,379)	-	-
Total Revenues	\$ 1,975,963	\$ 525,187	\$ 2,501,150	\$ 2,091,447
EXPENSES				
11 Instruction	1,026,132	-	1,026,132	844,355
13 Curriculum and instructional staff development	12,223	-	12,223	12,603
23 School leadership	136,848	-	136,848	92,683
31 Guidance, counseling, and evaluation services	-	-	-	188
34 Student transportation	54,310	-	54,310	50,835
35 Food services	55,377	-	55,377	41,187
36 Extracurricular activities	28,209	-	28,209	18,759
41 General administration	228,405	-	228,405	174,231
51 Plant maintenance and operations	413,207	-	413,207	307,682
52 Security and monitoring services	5,002	-	5,002	424
53 Data processing services	16,250	-	16,250	7,500
Total Expenses	\$ 1,975,963	\$ -	\$ 1,975,963	\$ 1,550,447
Change in Net Assets	-	525,187	525,187	541,000
Net Assets, Beginning of Year	29,336	2,540,806	2,570,142	2,029,142
Net Assets, End of Year	\$ 29,336	\$ 3,065,993	\$ 3,095,329	\$ 2,570,142

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 525,187	\$ 541,000
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	38,987	29,714
(Increase) decrease in due from governments	23,966	(72,827)
(Increase) decrease in deferred expenses	15,238	(2,185)
(Increase) decrease in other receivables	958	(958)
(Increase) decrease in capitalized debt issuance cost	(2,126)	-
(Increase) decrease in other assets	(16,500)	(1,150)
Increase (decrease) in accounts payable	40,571	-
Increase (decrease) in payroll deductions and withholdings payable	1,154	(329)
Net Cash Provided (Used) by Operating Activities	<u>627,435</u>	<u>493,265</u>
Cash Flows from Investing Activities		
Purchase of Equipment and Buildings	(962,222)	(41,689)
Disposition of Equipment and Buildings	2,188	8,618
Net Cash Provided (Used) by Investing Activities	<u>(960,034)</u>	<u>(33,071)</u>
Cash Flows from Financing Activities		
Loan Proceeds	430,000	-
Principal repayments on debt	(9,326)	-
Net Cash Provided (Used) by Financing Activities	<u>420,674</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	88,075	460,194
Cash and Cash Equivalents, Beginning of Year	<u>1,881,890</u>	<u>1,421,696</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,969,965</u>	<u>\$ 1,881,890</u>
Income taxes paid during the period ended August 31, 2007 and 2006.	None	None
Interest paid during the period ended August 31, 2007 and 2006.	\$ 11,400.00	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, 2007 and 2006**

	Totals	
	<u>2007</u>	<u>2006</u>
Expenses		
6100 Payroll Costs	\$ 1,163,205	\$ 993,481
6200 Professional and Contracted Services	485,453	346,869
6300 Supplies and Materials	227,805	146,810
6400 Other Operating Costs	88,076	63,287
6500 Debt	<u>11,424</u>	<u>-</u>
Total Expenses	<u>\$ 1,975,963</u>	<u>\$ 1,550,447</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, 2007**

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 462,998	\$ -
1520 Buildings and Improvements	-	888,431	-
1531 Vehicles	-	72,895	70,000
1539 Furniture and Equipment	-	32,762	19,567
1560 Library Books and Media	-	23,917	6,773
1579 Less accumulated depreciation	-	(106,263)	(51,653)
Total Property and Equipment	\$ -	\$ 1,374,740	\$ 44,687

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, 2007**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 33,648	\$ 33,648
5750 Cocurricular activities	14,000	33,487	33,936	449
Total Local Support	14,000	33,487	67,584	34,097
State Program Revenues:				
5810 Foundation school program	2,057,415	2,317,615	2,298,621	(18,994)
5820 State program revenues distributed by TEA	8,851	12,357	12,357	-
Total State Program Revenues	2,066,266	2,329,972	2,310,978	(18,994)
Federal Program Revenues:				
5920 Federal revenues distributed by TEA	100,968	123,276	123,276	-
Total Federal Program Revenues	100,968	123,276	123,276	-
Gain/Loss on Sale of Assets:	-	-	(688)	(688)
Total Revenues	\$ 2,181,234	\$ 2,486,735	\$ 2,501,150	\$ 14,415
EXPENSES				
11 Instruction	1,196,106	1,097,105	1,026,132	70,973
13 Curriculum and instructional staff development	25,468	19,940	12,223	7,717
23 School leadership	122,100	137,342	136,848	494
31 Guidance, counseling, & evaluation services	6,200	6,000	-	6,000
34 Student transportation	62,710	54,917	54,310	607
35 Food services	41,350	55,382	55,377	5
36 Extracurricular activities	5,735	28,361	28,209	152
41 General administration	196,200	228,493	228,405	88
51 Plant maintenance and operations	389,301	506,758	413,207	93,551
52 Security and monitoring services	600	5,000	5,002	(2)
53 Data processing services	15,000	15,000	16,250	(1,250)
Total Expenses	\$ 2,060,770	\$ 2,154,298	\$ 1,975,963	\$ 178,335
Change in Net Assets	120,464	332,437	525,187	192,750
Net Assets, Beginning of Year	2,570,142	2,570,142	2,570,142	-
Net Assets, End of Year	\$ 2,690,606	\$ 2,902,579	\$ 3,095,329	\$ 192,750

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
(940)423-6226
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H. Ted Neeb, CPA
Donna Hoff, CPA
Thea Neeb, CPA
Bryan Hart, CPA

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

Independent Auditor's Report

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

Members of the Board:

We have audited the financial statements of Salvaging Teens at Risk, Inc. (the charter holder) as of and for the year ended August 31, 2007, and have issued our report thereon dated December 7, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Salvaging Teens at Risk, Inc.'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 Salvaging Teens at Risk, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Salvaging Teens at Risk, Inc.'s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salvaging Teens at Risk, Inc.'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*.

This report is intended solely for the information and use of management, others within the organization and federal and state awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Respectfully submitted,

Freemon, Shapard and Story

Freemon, Shapard & Story
December 7, 2007

**SALVAGING TEENS AT RISK, INC. (THE CHARTER HOLDER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2007**

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 significant deficiencies 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, 2007.

II. Findings relating to the financial statements, which are required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

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, 2007**

<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, 2007

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

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Donna Hoff, CPA
Thea Neeb, CPA
Bryan Hart, CPA

December 7, 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, 2007, 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 certain matters that are an opportunity for strengthening internal controls and operating efficiently. (We previously reported on the Organization's internal control in our report dated December 7, 2007.) This letter does not affect our report dated December 7, 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 these comments and suggestions with various organization personnel, and we will be pleased to discuss this comment in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation. Our comment is summarized as follows:

I. General Ledger and Check Dates

During our evaluation of cash disbursements for the fiscal year, we noted three out of 25 checks had conflicting check and general ledger dates. All printed check dates were earlier than the dates posted to the charter school's general ledger. We recommend that all checks be posted to the general ledger the date the check is written to assure checks are properly paid and the charter school's books are accurate.

II. Business Manager Training

We noted that although the business manager, Martha Bewley is obtaining adequate total hours in continuing training each year, that most of her training is in the child nutrition area. As business manager, TEA suggests that continuing training be obtained in the areas of business law, school finance, accountability for public funds, etc. We suggest that Mrs. Bewley be instructed to obtain continuing training in a mix of these suggested areas annually.

III. PEIMS mid year submission

The PEIMS mid year submission correctly reflected the revenues and expenses of the prior year. However, the fund balance as reflected did not include the fund balance for fund 199. We will assist the school in making certain that this fund balance is included in the mid year PEIMS submission this year.

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 Suite A
Little Elm, TX 75068
PH (972) 292-2405 FAX (972) 292-2373



December 7, 2007

Freemon, Shapard, & Story
2088 Zihlman Rd.
Windthorst, TX 76389

To Whom It May Concern:

We are providing this letter in connection with your audit of the statements of financial position of The Education Center as of August 31, 2007, and the related statements of activities and cash flows for the year ended August 31, 2007, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of The Education Center in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 7, 2007, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all assets and liabilities under The Education Center's control.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of the Board of Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Freemon, Shapard, & Story
Windthorst, Texas
December 7, 2007

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting The Education Center involving—
 - a. Administrators,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting The Education Center received in communications from employees, former employees, grantors, regulators, or others.
9. The Education Center has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which The Education Center is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

Freemon, Shapard, & Story
Windthorst, Texas
December 7, 2007


11. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make The Education Center vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
13. The Education Center is an exempt organization under Section 501 (c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize The Education Center's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
14. There are no—
 - a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Statement of Financial Accounting Standards No. 5, Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by *Statement of Financial Accounting Standards No. 5*.
 - d. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
15. The Education Center has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged, other than those that have already been reported.

Freemon, Shapard, & Story
Windthorst, Texas
December 7, 2007

16. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

To the best of our knowledge and belief, no events have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the aforementioned financial statements.

Signed:



Nick Farley

Title:

CEO