
SALVAGING TEENS AT RISK, INC.

ANNUAL FINANCIAL AND
COMPLIANCE REPORTS

FOR THE YEAR ENDED AUGUST 31, 2008

SALVAGING TEENS AT RISK, INC.

ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2008

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SALVAGING TEENS AT RISK, INC.
COUNTY-DISTRICT NO. 061802
FEDERAL EMPLOYER IDENTIFICATION NUMBER: 75-2727881

ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2008

CERTIFICATE OF BOARD OF DIRECTORS

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Salvaging Teens at Risk, Inc. was reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2008, at a meeting of the governing body of said charter holder on the _____ day of January, 2009.

Signature of Board Secretary

Signature of Board President

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



GREGORY S. DELK



CERTIFIED PUBLIC ACCOUNTANT
CERTIFIED FINANCIAL PLANNER

INDEPENDENT AUDITOR'S REPORT

Unqualified Opinion on Financial Statements

Board of Directors
Salvaging Teens at Risk, Inc.
Little Elm, Texas

I have audited the accompanying financial statements of Salvaging Teens at Risk, Inc. listed in the table of contents as of and for the year ended August 31, 2008. These financial statements are the responsibility of Salvaging Teens at Risk, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salvaging Teens at Risk, Inc. as of August 31, 2008, and the respective changes in its net assets and its 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*, I have also issued my report dated January 15, 2009 on my consideration of Salvaging Teens at Risk, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

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

Gregory S. Delk, CPA, CFP
January 15, 2009

**GENERAL-PURPOSE
FINANCIAL STATEMENTS**

SALVAGING TEENS AT RISK, INC.
Statement of Financial Position
August 31, 2008

Exhibit A-1

ASSETS

Current Assets

| | |
|---------------------------|---------------------|
| Cash in Banks and On Hand | \$ 2,572,861.15 |
| Due from State | 24,092.00 |
| Total Current Assets | <u>2,596,953.15</u> |

Property and Equipment

| | |
|------------------------------|---------------------|
| Land | 563,046.44 |
| Building and Improvements | 1,672,924.47 |
| Vehicles | 174,895.45 |
| Furniture and Equipment | 97,374.79 |
| Library Books and Media | 30,690.00 |
| Accumulated Depreciation | <u>(224,396.01)</u> |
| Total Property and Equipment | 2,314,535.14 |

Other Assets

| | |
|--------------------|------------------|
| Other Assets | 19,704.44 |
| Total Other Assets | <u>19,704.44</u> |

| | |
|--------------|------------------------|
| TOTAL ASSETS | <u>\$ 4,931,192.73</u> |
|--------------|------------------------|

LIABILITIES AND NET ASSETS

Current Liabilities

| | |
|--------------------------------|-------------------|
| Accounts Payable | \$ 106,270.37 |
| Payroll Tax and Other Payables | 16,835.07 |
| Mortgage Payable Current Year | 32,563.24 |
| Due To State | 600.00 |
| Total Current Liabilities | <u>156,268.68</u> |

Long-Term Liabilities

| | |
|-----------------------------|-------------------|
| Mortgage Payable-Noncurrent | 358,070.38 |
| Total Long-Term Liabilities | <u>358,070.38</u> |

Net Assets

| | |
|--|---------------------|
| Unrestricted Net Assets (Deficiency) | 29,336.43 |
| Temporarily Restricted Net Assets (Deficiency) | <u>4,387,517.24</u> |
| Total Net Assets | 4,416,853.67 |

| | |
|----------------------------------|------------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 4,931,192.73</u> |
|----------------------------------|------------------------|

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

SALVAGING TEENS AT RISK, INC.
Statement of Activities
For the Year Ended August 31, 2008

Exhibit A-2

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
|--|---------------------|-----------------------------------|---------------------|
| <u>REVENUE AND OTHER SUPPORT</u> | | | |
| Local Support-- | | | |
| Earnings from Temporary Investments | \$ | \$ 40,886.60 | \$ 40,886.60 |
| Other Revenues | | 11,486.17 | 11,486.17 |
| Food Service Activity | | 36,164.39 | 36,164.39 |
| Student Activity Income | | 40,116.08 | 40,116.08 |
| Total Local Support | 0.00 | 128,653.24 | 128,653.24 |
| State Program Revenues-- | | | |
| Foundation School Program | | 4,284,881.00 | 4,284,881.00 |
| High School Allotment | | 39,708.00 | 39,708.00 |
| Accelerated Reading/Math | | 4,750.00 | 4,750.00 |
| School Breakfast Program Matching | | 1,395.10 | 1,395.10 |
| Technology Allotment | | 17,861.00 | 17,861.00 |
| Automatic External Defibrillator | | 7,375.00 | 7,375.00 |
| Total State Program Revenues | 0.00 | 4,355,970.10 | 4,355,970.10 |
| Federal Program Revenues-- | | | |
| School Breakfast Program | | 8,701.00 | 8,701.00 |
| National School Lunch Program | | 47,239.00 | 47,239.00 |
| Title IV, Part A | | 2,013.00 | 2,013.00 |
| Title I, Part A | | 22,986.00 | 22,986.00 |
| IDEA-Part B Formula | | 134,488.00 | 134,488.00 |
| Title II, Part A | | 26,257.00 | 26,257.00 |
| Title V, Part A | | 1,025.00 | 1,025.00 |
| Total Federal Program Revenues | 0.00 | 242,709.00 | 242,709.00 |
| Net Assets Released from Restrictions | 3,405,808.10 | (3,405,808.10) | 0.00 |
| Total Revenue and Other Support | 3,405,808.10 | 1,321,524.24 | 4,727,332.34 |
| <u>EXPENSES</u> | | | |
| Program Services: | | | |
| Instructional and Instructional Related Services | 1,975,136.46 | --- | 1,975,136.46 |
| Instructional and School Leadership | 245,384.70 | --- | 245,384.70 |
| Support Services: | | | |
| Administrative Support Services | 340,713.43 | --- | 340,713.43 |
| Support Services-Non-Student Based | 595,817.86 | --- | 595,817.86 |
| Support Services-Student (Pupil) | 221,727.27 | --- | 221,727.27 |
| Debt Service | 27,028.38 | --- | 27,028.38 |
| Total Expenses | 3,405,808.10 | 0.00 | 3,405,808.10 |
| Change in Net Assets | 0.00 | 1,321,524.24 | 1,321,524.24 |
| Net Assets (Deficiency), Beginning of Year | 29,336.43 | 3,065,993.00 | 3,095,329.43 |
| Net Assets (Deficiency), End of Year | \$ 29,336.43 | \$ 4,387,517.24 | \$ 4,416,853.67 |

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

SALVAGING TEENS AT RISK, INC.
Statement of Cash Flows
For the Year Ended August 31, 2008

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|---------------------|
| Cash Received from Government Contracts/Grants | \$ 4,724,784.84 |
| Cash Received from Local Sources | 128,653.24 |
| Cash Paid to Suppliers for Goods and Services | (1,443,021.89) |
| Cash Paid to Employees for Services | (1,788,863.33) |
| Cash Paid for Income Taxes | 0.00 |
| Cash Paid for Interest Expense | (27,028.38) |
| Net Cash Provided By Operating Activities | <u>1,594,524.48</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|---------------------|
| Purchase of Property and Equipment | (961,587.95) |
| Net Cash Used By Investing Activities | <u>(961,587.95)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---------------------------------------|--------------------|
| Payments on Indebtedness | (30,040.38) |
| Net Cash Used By Financing Activities | <u>(30,040.38)</u> |

| | |
|---------------------------|------------------------|
| Net Increase in Cash | 602,896.15 |
| Cash at Beginning of Year | <u>1,969,965.00</u> |
| Cash at End of Year | <u>\$ 2,572,861.15</u> |

**RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

| | |
|--|------------------------|
| Change in Net Assets | \$ 1,321,524.24 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities: | |
| Depreciation | 66,551.06 |
| (Increase) Decrease in Operating Assets-- | |
| Due from State/Governments | 125,505.74 |
| Increase (Decrease) in Operating Liabilities-- | |
| Due to State | 600.00 |
| Accounts Payable | 65,699.37 |
| Payroll Tax and Other Payables | 14,644.07 |
| Net Adjustments | <u>273,000.24</u> |
| Net Cash Provided By Operating Activities | <u>\$ 1,594,524.48</u> |

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

**NOTES TO
FINANCIAL STATEMENTS**

SALVAGING TEENS AT RISK, INC.

Notes To Financial Statements
For the Year Ended August 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities –

Salvaging Teens at Risk, Inc. provides an alternative learning environment for students. The School operates under an open enrollment charter granted by the State of Texas Board of Education. This charter was issued for a period of five years starting December 11, 2000 and is subject to review and renewal periodically. The school is currently operating under a charter renewal until July 31, 2015. The School is part of the public school system of the State of Texas and is therefore entitled to distribution from the State's available school fund. The School does not have the authority to impose ad valorem taxes or to charge tuition. The organization does business as The Education Center and there is not currently any additional financial activity outside of the charter school.

The School was incorporated in 1997 and has been recognized as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

B. Accounting Policies –

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide. The significant accounting policies are as follows:

To insure observance of limitations and restrictions placed on the use of resources available to the School, the accounts are maintained in accordance with the principles of fund accounting during the year. Resources for various purposes are classified into funds according to their nature and purposes. Separate accounts are maintained for each fund; however, the accompanying statements of financial position and of activities focus on the organization as a whole and reports the amounts of its total assets, liabilities, net assets and changes in net assets in accordance with Financial Accounting Standards Board Statement No. 117.

The statement of financial position reports the amounts of each of two classes of net assets: temporarily restricted and unrestricted net assets.

- ❖ Temporarily restricted net assets result from contributions and other inflows of assets that are limited by donor imposed stipulations that can be fulfilled and removed by action of the School pursuant to those stipulations.

When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- ❖ Unrestricted net assets are the remaining part of the School's net assets that is neither permanently restricted nor temporarily restricted by donor imposed stipulations. Property and equipment are included in unrestricted net assets.

- ❖ Permanently restricted net assets result from contributions and other inflows of assets that are required to be maintained in perpetuity with only the income to be used for the School's activities due to donor-imposed restrictions.

SALVAGING TEENS AT RISK, INC.

Notes To Financial Statements
For the Year Ended August 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash and Cash Equivalents –

For purposes of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks and includes highly liquid investments with an original maturity of three months or less.

D. Fixed Assets and Depreciation –

All assets acquired with a value of \$5,000.00 or greater and an estimated useful life of three years or more are recorded as fixed assets and are valued at cost or estimated cost. Donated assets are reported at the fair market value at the time of acquisition. Depreciation of building improvements and equipment is provided over the estimated useful lives of the assets on a straight line basis. 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.

E. Revenues –

Revenues from the State of Texas available school fund are earned based on reported attendance.

Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support, in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*.

- ❖ Contributions with donor imposed restrictions are reported as restricted support. Restricted support increases temporarily restricted net assets.
- ❖ Contributions without donor imposed restrictions are reported as unrestricted support. Unrestricted support increases unrestricted net assets.

Government grant contracts that are entered into by the School are recognized as revenue when services are rendered or when expenses in connection with those services are incurred.

F. Donated Goods and Services –

Donated goods and services that can be measured and meet certain other requirements are recorded in the financial statements as in kind contributions and expenses of a like amount.

G. Personal Leave –

All employees earn five days of paid personal leave per year. However, unused balances do not accumulate; therefore, there is no liability accrued on the financial statements.

H. Estimates –

In preparation of the financial statements and in conformity with generally accepted accounting principles, management's estimated useful lives of asset classes were used in the calculation of depreciation.

SALVAGING TEENS AT RISK, INC.

Notes To Financial Statements
For the Year Ended August 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Functional Allocation of Expenses –

The expense of the various programs and other activities has been presented on a functional basis in the statement of activities. Accordingly, certain expenses and supporting service costs have been allocated among the various programs.

2. BUILDING IMPROVEMENTS AND EQUIPMENT

An analysis of building improvements and equipment at August 31, 2008, is presented as follows:

| Asset | Cost | Accumulated Depreciation | Net | Straight Line Depr. Rate |
|---------------------------|-----------------|--------------------------|--------------|--------------------------|
| Land | \$ 563,046.44 | -0- | 563,046.44 | |
| Building and Improvements | 1,672,924.47 | 103,673.78 | 1,569,250.69 | 2.5% |
| Vehicles | 174,895.45 | 69,508.55 | 105,386.90 | 20.00% |
| Furniture & Equipment | 97,374.79 | 31,776.68 | 65,598.11 | 14.29% |
| Library Books and Media | 30,690.00 | 19,437.00 | 11,253.00 | 20.00% |
| Total | \$ 2,538,931.15 | 224,396.01 | 2,314,535.14 | |

Depreciation expense for the year ended August 31, 2008 was \$66,551.06.

3. LONG-TERM DEBT

At August 31, 2008 the Schools long-term debt consisted of the following:

Building Mortgage, ten year amortizable note, 7.75% interest, principal and interest payable in monthly installments of \$5,182.00 commencing May 1, 2007. The note is secured by a first lien on the land and building located at 968 Raldon Rd, Lewisville, Texas.

| | |
|---|---------------------|
| Total Long-Term Debt (Mortgage Payable) | \$390,633.62 |
| Less Current Portion of Long-Term Debt | <u>32,563.24</u> |
| Long-Term Debt | <u>\$358,070.38</u> |

Future maturities of long-term debt for years ending August 31 are as follows:

| August 31, | Principal | Interest | Total |
|------------|----------------|---------------|----------------|
| 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 |
| 2013 | 45,647 | 16,531 | 62,178 |
| Thereafter | <u>197,876</u> | <u>31,768</u> | <u>229,644</u> |
| Totals | 390,634 | 149,900 | 540,534 |

SALVAGING TEENS AT RISK, INC.

Notes To Financial Statements
For the Year Ended August 31, 2008

4. PENSION PLAN

Plan Description

The 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 School, but are the liability of the State of Texas. The System provides service retirement and disability benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the School. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 877-0123.

Funding Policy

Under provisions of 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 School's covered payroll. The School's employees' contributions to the System for the year ending August 31, 2008 were \$134,325.99 and were equal to the required contributions for each year. The State of Texas' contributions should approximate \$125,000.00.

Additional Plan

Employees of the charter holder are also covered under Medicare. Under provisions of federal law, covered Employees contribute 1.45% of their annual covered salary and the charter holder matches that amount.

5. HEALTH CARE COVERAGE

Employees of the School are covered by a group insurance plan. The School pays \$331.00 towards the employee's premium and the employee pays the balance due plus premiums for dependent coverage through payroll deductions. All premiums were paid to licensed insurers.

6. DUE FROM STATE

At August 31, 2008, the Organization was due \$24,092.00 in State Foundation Program funding that it had not yet received. This amount was received from the Texas Education Agency during the 2008-2009 school year.

7. DUE TO STATE

At August 31, 2008, the School, based upon enrollment and number of days taught in the fiscal year, had been overpaid \$600.00 in Technology Allotment that was recovered by the State during the 2008-2009 school year.

8. ECONOMIC DEPENDENCY

During the year the School received the majority of its revenues from the Texas Education Agency through a Charter Agreement and through federal grants available to charter schools. The loss of this Charter Agreement would have a material effect on the ability of the School to continue to provide the current level of services to its students.

SALVAGING TEENS AT RISK, INC.

Notes To Financial Statements
For the Year Ended August 31, 2008

9. OPERATING LEASES

The School has entered into a lease agreement for office and classroom space at 5201 S Colony Blvd, Suites 545-550, The Colony, Texas. This agreement covers the 36 months ending July 31, 2011. The lease is at a monthly rental rate of \$8,420.83 per month. The School has entered into a lease agreement for office and classroom space at 5901 Crestwood Place, Little Elm, Texas. This agreement covers the 12 months ending August 31, 2009. The lease is at a monthly rental rate of \$6,500.00 per month. The School has entered into a lease agreement for administration space at 100 E. Park, Little Elm, Texas at a monthly rate of \$1,150.00 through May, 2009. The School has entered into a lease agreement for office and classroom space at 4420 Country Club Road, Denton, Texas at a monthly rate of \$4,500.00 rising to \$4,750.00 June 2009.

Future minimum lease payments are as follows:

| | |
|--------------------------|-----------|
| 8/31/2009 | \$244,150 |
| 8/31/2010 | 143,800 |
| 8/31/2011 | 92,629 |
| 8/31/2012 and thereafter | - 0 - |

10. COMMITMENTS AND CONTINGENCIES

The School receives funds through state and federal programs which are governed by various rules and regulations of the grantor. Expenses charged to the grant program are subject to audit and adjustment by the grantor agency. In the opinion of management, aside from the temporary restrictions on net assets as explained below, there are no contingent liabilities relating to compliance with rules and regulations governing the grants; therefore, no provision has been made in the accompanying financial statements for such contingencies.

11. CASH DEPOSIT RISK

At August 31, 2008 and throughout the school year, the School's cash in bank accounts was not entirely covered by Federal Deposit Insurance Corporation (FDIC) insurance but has been fully covered all year by pledged collateral held by the School's agent bank. The School had a high balance of \$2,725,168.55 on May 27th, 2008, therefore there was potential for a loss of \$2,625,168.55 that would have been fully covered by the pledged securities valued at \$2,707,026.70 at that date. The value of pledged securities at December 31, 2008 was \$2,863,319.97.

12. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2008 the School had temporarily restricted net assets of \$4,387,517.24 that consisted of the following:

| | |
|-------------------------------------|------------------------|
| Local Revenues | \$ 88,541.48 |
| State Foundation Program | 4,226,807.18 |
| State Technology Allotment | 16,515.43 |
| State High School Allotment | 10,968.00 |
| Federal IDEA-B Program | 5,957.04 |
| Federal Public Charter School Grant | 38,728.11 |
| | <u>\$ 4,387,517.24</u> |

**SPECIFIC-PURPOSE
FINANCIAL STATEMENTS**

SALVAGING TEENS AT RISK, INC.
Statement of Financial Position
August 31, 2008

Exhibit B-1

ASSETS

Current Assets

| | |
|-----------------------------|----------------------------|
| Cash in Banks and On Hand | \$ 2,572,861.15 |
| Due from State | 24,092.00 |
| Total Current Assets | <u>2,596,953.15</u> |

Property and Equipment

| | |
|-------------------------------------|----------------------------|
| Land | 563,046.44 |
| Building and Improvements | 1,672,924.47 |
| Vehicles | 174,895.45 |
| Furniture and Equipment | 97,374.79 |
| Library Books and Media | 30,690.00 |
| Accumulated Depreciation | <u>(224,396.01)</u> |
| Total Property and Equipment | <u>2,314,535.14</u> |

Other Assets

| | |
|---------------------------|------------------|
| Other Assets | <u>19,704.44</u> |
| Total Other Assets | 19,704.44 |

| | |
|---------------------|--------------------------------------|
| TOTAL ASSETS | \$ <u><u>4,931,192.73</u></u> |
|---------------------|--------------------------------------|

LIABILITIES AND NET ASSETS

Current Liabilities

| | |
|----------------------------------|--------------------------|
| Accounts Payable | \$ 106,270.37 |
| Payroll Tax and Other Payables | 16,835.07 |
| Mortgage Payable Current Year | 32,563.24 |
| Due To State | <u>600.00</u> |
| Total Current Liabilities | <u>156,268.68</u> |

Long-Term Liabilities

| | |
|------------------------------------|-------------------|
| Mortgage Payable-Noncurrent | <u>358,070.38</u> |
| Total Long-Term Liabilities | 358,070.38 |

Net Assets

| | |
|--|----------------------------|
| Unrestricted Net Assets (Deficiency) | 29,336.43 |
| Temporarily Restricted Net Assets (Deficiency) | <u>4,387,517.24</u> |
| Total Net Assets | <u>4,416,853.67</u> |

| | |
|---|--------------------------------------|
| TOTAL LIABILITIES AND NET ASSETS | \$ <u><u>4,931,192.73</u></u> |
|---|--------------------------------------|

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

SALVAGING TEENS AT RISK, INC.

Exhibit B-2

Statement of Activities

For the Year Ended August 31, 2008

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
|---|---------------------|-----------------------------------|-----------------|
| REVENUE AND OTHER SUPPORT | | | |
| Local Support-- | | | |
| 5742 Earnings from Temporary Investments | \$ | \$ 40,886.60 | \$ 40,886.60 |
| 5749 Other Revenues | | 11,486.17 | 11,486.17 |
| 5751 Food Service Activity | | 36,164.39 | 36,164.39 |
| 5759 Student Activity Income | | 40,116.08 | 40,116.08 |
| Total Local Support | 0.00 | 128,653.24 | 128,653.24 |
| State Program Revenues-- | | | |
| 5812 Foundation School Program | | 4,284,881.00 | 4,284,881.00 |
| 5812 High School Allotment | | 39,708.00 | 39,708.00 |
| 5829 Accelerated Reading/Math | | 4,750.00 | 4,750.00 |
| 5829 School Breakfast Program Matching | | 1,395.10 | 1,395.10 |
| 5829 Technology Allotment | | 17,861.00 | 17,861.00 |
| 5829 Automatic External Defibrillator | | 7,375.00 | 7,375.00 |
| Total State Program Revenues | 0.00 | 4,355,970.10 | 4,355,970.10 |
| Federal Program Revenues-- | | | |
| 5921 School Breakfast Program | | 8,701.00 | 8,701.00 |
| 5922 National School Lunch Program | | 47,239.00 | 47,239.00 |
| 5922 Title IV, Part A | | 2,013.00 | 2,013.00 |
| 5929 Title I, Part A | | 22,986.00 | 22,986.00 |
| 5929 IDEA-Part B Formula | | 134,488.00 | 134,488.00 |
| 5929 Title II, Part A | | 26,257.00 | 26,257.00 |
| 5929 Title V, Part A | | 1,025.00 | 1,025.00 |
| Total Federal Program Revenues | 0.00 | 242,709.00 | 242,709.00 |
| Net Assets Released from Restrictions | 3,405,808.10 | (3,405,808.10) | 0.00 |
| Total Revenue and Other Support | 3,405,808.10 | 1,321,524.24 | 4,727,332.34 |
| EXPENSES | | | |
| 11 Instruction | 1,959,485.97 | — | 1,959,485.97 |
| 13 Curriculum Dev. & Instructional Staff Dev. | 15,650.49 | — | 15,650.49 |
| 21 Instructional Leadership | 5,279.18 | — | 5,279.18 |
| 23 School Leadership | 240,105.52 | — | 240,105.52 |
| 34 Student (Pupil) Transportation | 49,119.51 | — | 49,119.51 |
| 35 Food Services | 120,392.83 | — | 120,392.83 |
| 36 Cocurricular/Extracurricular Activities | 52,214.93 | — | 52,214.93 |
| 41 General Administration | 340,713.43 | — | 340,713.43 |
| 51 Plant Maintenance and Operations | 574,362.22 | — | 574,362.22 |
| 52 Security and Monitoring Services | 6,455.64 | — | 6,455.64 |
| 53 Data Processing Services | 15,000.00 | — | 15,000.00 |
| 71 Debt Service | 27,028.38 | — | 27,028.38 |
| Total Expenses | 3,405,808.10 | 0.00 | 3,405,808.10 |
| Change in Net Assets | 0.00 | 1,321,524.24 | 1,321,524.24 |
| Net Assets (Deficiency), Beginning of Year | 29,336.43 | 3,065,993.00 | 3,095,329.43 |
| Net Assets (Deficiency), End of Year | \$ 29,336.43 | \$ 4,387,517.24 | \$ 4,416,853.67 |

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

SALVAGING TEENS AT RISK, INC.
Statement of Cash Flows
For the Year Ended August 31, 2008

Exhibit B-3

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|---------------------|
| Cash Received from Government Contracts/Grants | \$ 4,724,784.84 |
| Cash Received from Local Sources | 128,653.24 |
| Cash Paid to Suppliers for Goods and Services | (1,443,021.89) |
| Cash Paid to Employees for Services | (1,788,863.33) |
| Cash Paid for Income Taxes | 0.00 |
| Cash Paid for Interest Expense | <u>(27,028.38)</u> |
| Net Cash Provided By Operating Activities | <u>1,594,524.48</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|---------------------|
| Purchase of Property and Equipment | <u>(961,587.95)</u> |
| Net Cash Used By Investing Activities | <u>(961,587.95)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---------------------------------------|--------------------|
| Payments on Indebtedness | <u>(30,040.38)</u> |
| Net Cash Used By Financing Activities | <u>(30,040.38)</u> |

| | |
|---------------------------|-------------------------------|
| Net Increase in Cash | 602,896.15 |
| Cash at Beginning of Year | <u>1,969,965.00</u> |
| Cash at End of Year | <u><u>\$ 2,572,861.15</u></u> |

**RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

| | |
|--|-------------------------------|
| Change in Net Assets | \$ 1,321,524.24 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities: | |
| Depreciation | 66,551.06 |
| (Increase) Decrease in Operating Assets-- | |
| Due from State/Governments | 125,505.74 |
| Increase (Decrease) in Operating Liabilities-- | |
| Due to State | 600.00 |
| Accounts Payable | 65,699.37 |
| Payroll Tax and Other Payables | 14,644.07 |
| Net Adjustments | <u>273,000.24</u> |
| Net Cash Provided By Operating Activities | <u><u>\$ 1,594,524.48</u></u> |

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

**SUPPLEMENTARY
SCHEDULES**

SALVAGING TEENS AT RISK, INC.
Schedule of Expenses
For the Year Ended August 31, 2008

Exhibit C-1

EXPENSES

| | <u>Totals</u> |
|---|------------------------|
| 6100 Payroll Costs | \$ 2,084,449.26 |
| 6200 Professional and Contracted Services | 706,248.60 |
| 6300 Supplies and Materials | 461,186.93 |
| 6400 Other Operating Costs | 126,894.93 |
| 6500 Debt | 27,028.38 |
| Total Expenses and Other Losses | <u>\$ 3,405,808.10</u> |

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

SALVAGING TEENS AT RISK, INC.
Schedule of Capital Assets
For the Year Ended August 31, 2008

Exhibit D-1

| <u>CAPITAL ASSETS</u> | <u>Ownership Interest</u> | | |
|---------------------------------|---------------------------|-----------------|----------------|
| | <u>Local</u> | <u>State</u> | <u>Federal</u> |
| 1110 Cash | \$ | \$ 2,528,176.00 | \$ 44,685.15 |
| 1510 Land | | 563,046.44 | |
| 1520 Buildings and Improvements | | 1,672,924.47 | |
| 1539 Furniture and Equipment | | 38,261.67 | 59,113.12 |
| 1541 Vehicles | | 104,895.45 | 70,000.00 |
| 1569 Library Books and Media | | 23,917.25 | 6,772.75 |
| Total Capital Assets | \$ 0.00 | \$ 4,931,221.28 | \$ 180,571.02 |

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

SALVAGING TEENS AT RISK, INC.
Budgetary Comparison Schedule
For the Year Ended August 31, 2008

Exhibit E-1

| | Budgeted Amounts | | Actual Amounts | Variance from Final Budget |
|---|------------------------|------------------------|------------------------|----------------------------------|
| | Original | Final | | |
| REVENUE AND OTHER SUPPORT | | | | |
| Local Support-- | | | | |
| 5742 Earnings from Temporary Investments | \$ | \$ 40,888.00 | \$ 40,886.60 | \$ (1.40) |
| 5749 Other Revenues | | 10,779.00 | 11,486.17 | 707.17 |
| 5751 Food Service Activity | 26,000.00 | 36,165.00 | 36,164.39 | (0.61) |
| 5759 Student Activity Income | | 40,118.00 | 40,116.08 | (1.92) |
| Total Local Support | <u>26,000.00</u> | <u>127,950.00</u> | <u>128,653.24</u> | <u>703.24</u> |
| State Program Revenues-- | | | | |
| 5812 Foundation School Program | 3,626,687.00 | 4,418,730.00 | 4,284,881.00 | (133,849.00) |
| 5812 High School Allotment | | 28,740.00 | 39,708.00 | 10,968.00 |
| 5829 Accelerated Reading/Math | | 8,615.00 | 4,750.00 | (3,865.00) |
| 5829 School Breakfast Program Matching | | 1,396.00 | 1,395.10 | |
| 5829 Technology Allotment | | 18,164.00 | 17,861.00 | (303.00) |
| 5829 Automatic External Defibrillator | | 7,375.00 | 7,375.00 | 0.00 |
| Total State Program Revenues | <u>3,626,687.00</u> | <u>4,483,020.00</u> | <u>4,355,970.10</u> | <u>(127,049.00)</u> |
| Federal Program Revenues-- | | | | |
| 5921 School Breakfast Program | 6,000.00 | 8,701.00 | 8,701.00 | 0.00 |
| 5922 National School Lunch Program | 30,000.00 | 47,250.00 | 47,239.00 | (11.00) |
| 5922 Title IV, Part A | | 2,013.00 | 2,013.00 | 0.00 |
| 5929 Title I, Part A | | 22,986.00 | 22,986.00 | 0.00 |
| 5929 IDEA-Part B Formula | | 134,488.00 | 134,488.00 | 0.00 |
| 5929 Title II, Part A | | 26,257.00 | 26,257.00 | 0.00 |
| 5929 Title II, Part D | | 192.00 | 0.00 | (192.00) |
| 5929 Title V, Part A | | 1,025.00 | 1,025.00 | 0.00 |
| Total Federal Program Revenues | <u>36,000.00</u> | <u>242,912.00</u> | <u>242,709.00</u> | <u>(203.00)</u> |
| Total Revenue and Other Support | 3,688,687.00 | 4,853,882.00 | 4,727,332.34 | (126,548.76) |
| EXPENSES | | | | |
| 11 Instruction | 2,253,000.00 | 2,604,797.50 | 1,959,485.97 | (645,311.53) |
| 13 Curriculum Dev. & Instructional Staff Dev. | 25,800.00 | 25,800.00 | 15,650.49 | (10,149.51) |
| 21 Instructional Leadership | | 5,290.00 | 5,279.18 | (10.82) |
| 23 School Leadership | 247,860.00 | 243,720.00 | 240,105.52 | (3,614.48) |
| 31 Guidance, Counseling and Evaluation Svcs. | 6,000.00 | 5,650.00 | 0.00 | (5,650.00) |
| 33 Health Services | | | 0.00 | 0.00 |
| 34 Student (Pupil) Transportation | 102,000.00 | 102,000.00 | 49,119.51 | (52,880.49) |
| 35 Food Services | 180,200.00 | 180,200.00 | 120,392.83 | (59,807.17) |
| 36 Cocurricular/Extracurricular Activities | 23,000.00 | 62,950.00 | 52,214.93 | (10,735.07) |
| 41 General Administration | 281,250.00 | 325,942.00 | 340,713.43 | 14,771.43 |
| 51 Plant Maintenance and Operations | 1,137,602.00 | 1,137,602.00 | 574,362.22 | (563,239.78) |
| 52 Security and Monitoring Services | 8,000.00 | 8,000.00 | 6,455.64 | (1,544.36) |
| 53 Data Processing Services | 45,000.00 | 25,000.00 | 15,000.00 | (10,000.00) |
| 61 Community Services | | | 0.00 | 0.00 |
| 71 Debt Service | | 20,000.00 | 27,028.38 | 7,028.38 |
| 81 Fundraising | | | 0.00 | 0.00 |
| Total Expenses | <u>4,309,712.00</u> | <u>4,746,951.50</u> | <u>3,405,808.10</u> | <u>(1,341,143.40)</u> |
| Change in Net Assets | (621,025.00) | 106,930.50 | 1,321,524.24 | 1,214,593.74 |
| Net Assets (Deficiency), Beginning of Year | <u>3,095,329.43</u> | <u>3,095,329.43</u> | <u>3,095,329.43</u> | <u>---</u> |
| Net Assets (Deficiency), End of Year | <u>\$ 2,474,304.43</u> | <u>\$ 3,202,259.93</u> | <u>\$ 4,416,853.67</u> | <u>\$ 1,214,593.74</u> |

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

**COMPLIANCE AND
INTERNAL CONTROL**



GREGORY S. DELK



CERTIFIED PUBLIC ACCOUNTANT
CERTIFIED FINANCIAL PLANNER

INDEPENDENT AUDITOR'S REPORT

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.
Little Elm, Texas

I have audited the financial statements of Salvaging Teens at Risk, Inc. as of and for the year ended August 31, 2008, and have issued my report thereon dated January 15, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Salvaging Teens at Risk, Inc.'s internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 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.

My consideration of the 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. I did not identify any deficiencies in internal control over financial reporting that I 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, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and accordingly, I do not express such an opinion. The results of my 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 the Board of Directors, management, others within the entity, The Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gregory S. Delk

Gregory S. Delk, CPA, CFP
January 15, 2009

SALVAGING TEENS AT RISK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2008

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Exhibit F-1

FINANCIAL STATEMENTS

| | |
|--|-------------|
| Type of auditor's report issued: | Unqualified |
| Internal control over financial reporting: | |
| Significant deficiencies identified? | None |
| Significant deficiencies identified that are considered to be material weaknesses? | None |
| Noncompliance material to financial statements noted? | None |

FEDERAL AWARDS

| | |
|--|-------------|
| Internal control over major programs: | |
| Significant deficiencies identified? | None |
| Significant deficiencies identified that are considered to be material weaknesses? | None |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | N/A |
| Identification of major programs: | None |
| Dollar threshold used to distinguish between type A and type B programs: | N/A |
| Auditee qualified as low-risk auditee? | N/A |

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – STATE AND FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--|------|
| Audit findings and questioned costs for federal awards as required To be reported by section 510(a) of Circular A-133: | None |
|--|------|

SALVAGING TEENS AT RISK, INC.

STATUS OF PRIOR AUDIT FINDINGS

For the Year Ended August 31, 2008

None

SALVAGING TEENS AT RISK, INC.

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2008

Exhibit G-1

None