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**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORTS**

**FOR THE YEAR ENDED AUGUST 31, 2014**

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

**ANNUAL FINANCIAL AND COMPLIANCE REPORT  
FOR THE YEAR ENDED AUGUST 31, 2014**

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

ANNUAL FINANCIAL AND COMPLIANCE REPORT  
FOR THE YEAR ENDED AUGUST 31, 2014

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, 2014, at a meeting of the governing body of said charter holder on the \_\_\_\_\_ day of January, 2015.

\_\_\_\_\_  
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**

## **INDEPENDENT AUDITOR'S REPORT**

Unmodified Opinion on Financial Statements

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

Members of the Board of Directors:

### ***Report on the Financial Statements***

I have audited the accompanying financial statements of Salvaging Teens at Risk, Inc. dba Texas Education Centers listed in the table of contents as of and for the year ended August 31, 2014 and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***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. dba Texas Education Centers as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

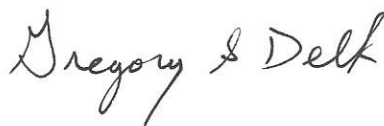
My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was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



and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated January 2, 2015 on my consideration of Salvaging Teens at Risk, Inc. dba Texas Education Centers' 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* in considering Salvaging Teens at Risk, Inc. dba Texas Education Centers' internal control over financial reporting and compliance.



Gregory S. Delk, CPA  
January 2, 2015

**GENERAL-PURPOSE  
FINANCIAL STATEMENTS**

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

Exhibit A-1

**Statement of Financial Position  
August 31, 2014**

**ASSETS**

**Current Assets**

Cash in Banks and On Hand	\$ 726,205.20
Due from State	15,042.10
Due from Federal Government	205,093.32
Interfund Receivables	137,900.37
Other Receivables	23,099.54
Capitalized Debt Issuance Costs	5,359.21
Total Current Assets	1,112,699.74

**Property and Equipment**

Land	2,053,027.13
Building and Improvements	11,866,095.27
Vehicles	375,133.09
Furniture and Equipment	233,090.17
Library Books and Media	44,040.00
Accumulated Depreciation	(1,210,005.61)
Total Property and Equipment	13,361,380.05

**Other Assets**

Other Assets	23,550.00
Total Other Assets	23,550.00

TOTAL ASSETS	\$ 14,497,629.79
--------------	------------------

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	\$ 60,332.11
Current Portion of Long-Term Debt	823,736.38
Payroll and Other Withholdings Payable	(1,183.16)
Accrued Wages Payable	106,823.70
Interfund Payables	137,900.37
Total Current Liabilities	1,127,609.40

**Long-Term Liabilities**

Notes Payable Less Current Portion	2,992,183.83
Total Long-Term Liabilities	2,992,183.83

**Net Assets**

Unrestricted Net Assets (Deficiency)	29,413.98
Temporarily Restricted Net Assets (Deficiency)	10,348,422.58
Total Net Assets	10,377,836.56

TOTAL LIABILITIES AND NET ASSETS	\$ 14,497,629.79
----------------------------------	------------------

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



**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

Exhibit A-2

**Statement of Activities  
For the Year Ended August 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b><u>REVENUE AND OTHER SUPPORT</u></b>			
Local Support--			
Earnings from Temporary Investments	\$	\$ 594.94	\$ 594.94
Insurance Recovery		15,482.35	15,482.35
Other Revenues		95,959.95	95,959.95
Food Service Activity		27,802.50	27,802.50
Student Activity Income		21,810.04	21,810.04
Total Local Support	0.00	161,649.78	161,649.78
State Program Revenues--			
Foundation School Program-Per Capita		150,922.00	150,922.00
Foundation School Program		5,289,702.00	5,289,702.00
School Breakfast Program Matching		5,134.05	5,134.05
Total State Program Revenues	0.00	5,445,758.05	5,445,758.05
Federal Program Revenues--			
GAPS Education Funds		400.00	400.00
School Breakfast Program		35,061.26	35,061.26
National School Lunch Program		135,396.51	135,396.51
Title I, Part A		138,036.53	138,036.53
IDEA-Part B Formula		140,338.00	140,338.00
Title II, Part A		44,000.00	44,000.00
Total Federal Program Revenues	0.00	493,232.30	493,232.30
Net Assets Released from Restrictions	5,615,352.09	(5,615,352.09)	0.00
Total Revenue and Other Support	5,615,352.09	485,288.04	6,100,640.13
<b><u>EXPENSES</u></b>			
Program Services:			
Instructional and Instructional Related Services	3,287,869.79	----	3,287,869.79
Instructional and School Leadership	448,926.93	----	448,926.93
Support Services:			
Administrative Support Services	328,481.69	----	328,481.69
Support Services-Non-Student Based	934,302.72	----	934,302.72
Support Services-Student (Pupil)	468,390.24	----	468,390.24
Debt Service	147,380.72	----	147,380.72
Total Expenses	5,615,352.09	0.00	5,615,352.09
<b>Change in Net Assets</b>	<b>0.00</b>	<b>485,288.04</b>	<b>485,288.04</b>
Net Assets (Deficiency), Beginning of Year	29,413.98	9,863,134.54	9,892,548.52
Net Assets (Deficiency), End of Year	\$ 29,413.98	\$ 10,348,422.58	\$ 10,377,836.56

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

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

Exhibit A-3

**Statement of Cash Flows  
For the Year Ended August 31, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Government Contracts/Grants	\$ 5,893,391.27
Cash Received from Local Sources	161,649.78
Cash Paid to Suppliers for Goods and Services	(2,017,148.26)
Cash Paid to Employees for Services	(3,154,760.51)
Cash Paid for Income Taxes	0.00
Cash Paid for Interest Expense	(147,380.72)
Net Cash Provided By Operating Activities	<u>735,751.56</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Property and Equipment	<u>(3,334,046.42)</u>
Net Cash Used By Investing Activities	<u>(3,334,046.42)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from New Debt	1,764,541.58
Payments on Debt	<u>(49,752.92)</u>
Net Cash Provided By Financing Activities	<u>1,714,788.66</u>

Net Decrease in Cash (883,506.20)

Cash at Beginning of Year 1,609,711.40

Cash at End of Year \$ 726,205.20

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

Change in Net Assets	\$ 485,288.04
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:	
Depreciation	312,697.27
Other Asset Write-off	2,300.00
(Increase) Decrease in Operating Assets--	
Due from State/Federal Governments	(45,599.08)
Other Receivables	(21,191.03)
Deferred Expenses	32,000.00
Increase (Decrease) in Operating Liabilities--	
Accounts Payable	(134,521.36)
Payroll and Other Withholdings Payable	(2,045.98)
Accrued Wages Payable	106,823.70
Net Adjustments	<u>250,463.52</u>
Net Cash Provided By Operating Activities	<u><u>\$ 735,751.56</u></u>

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

**NOTES TO  
FINANCIAL STATEMENTS**



**SALVAGING TEENS AT RISK, INC.**  
**dba Texas Education Centers**

**Notes To Financial Statements**  
**For the Year Ended August 31, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Nature of Activities –**

Salvaging Teens at Risk, Inc. dba Texas Education Centers 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 Texas Education Centers 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 three classes of net assets: temporarily restricted, unrestricted net assets and permanently restricted (currently zero).

- ❖ 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 actions 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.**  
**dba Texas Education Centers**

**Notes To Financial Statements**  
**For the Year Ended August 31, 2014**

**1. 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.**  
**dba Texas Education Centers**

**Notes To Financial Statements**  
**For the Year Ended August 31, 2014**

**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, 2014, is presented as follows:

Asset	Cost	Accumulated Depreciation	Net	Straight Line Depr. Rate
Land	\$ 2,053,027.13	-0-	2,053,027.13	
Building and Improvements	11,866,095.27	727,002.82	11,139,092.45	2.5%
Vehicles	375,133.09	292,265.31	82,867.78	20.00%
Furniture & Equipment	233,090.17	146,697.48	86,392.69	14.29%
Library Books and Media	44,040.00	44,040.00	-0-	20.00%
Total	\$ 14,571,385.66	1,210,005.61	13,361,380.05	

Depreciation expense for the year ended August 31, 2014 was \$312,697.27.

**3. HEALTH CARE COVERAGE**

Employees of the School are covered by a group insurance plan. The School pays \$400.00 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.

**4. DUE FROM STATE**

At August 31, 2014, the Organization was due \$10,548.00 in State Foundation Program funds, \$44,000.00 in Title II, Part A funds, \$4,494.10 in Breakfast/Lunch Program funds that it had not yet received. These amounts will be received from the Texas Education Agency during the 2014-2015 school year.

**5. DUE FROM FEDERAL GOVERNMENT**

At August 31, 2014, the Organization was due \$93,067.97 in IDEA-B funds, \$68,025.35 in Title I, Part A funds. This amount will be received from the Federal Government during the 2014-2015 school year.

**6. 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,



**SALVAGING TEENS AT RISK, INC.**  
**dba Texas Education Centers**

**Notes To Financial Statements**  
**For the Year Ended August 31, 2014**

**6. PENSION PLAN (continued)**

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 (6.7% starting September 1, 2014) and the State of Texas contributes an amount equal to 6.0% of the Organization's covered payroll. Starting September 2014 The Organization also must contribute 1.5% of the covered payroll of employees. The School's employees' contributions to the System for the year ending August 31, 2014 were \$180,840.36 and were equal to the required contributions. The State of Texas' contributions should approximate \$169,500.00.

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.

**7. CASH DEPOSIT RISK**

At August 31, 2014 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 valued in excess of \$4,229,000.00

**8. LONG-TERM DEBT**

At August 31, 2014 the Schools long-term debt consisted of the following:

The Organization obtained a construction loan with Independent Bank to purchase land and construct a school and administration facilities at 4601 North I-35, Denton, TX. The loan was originally for \$1,380,000.00 at an interest rate of prime, but not lower than 3.25% with monthly payments of \$7,859.76 and a balloon payoff January 18<sup>th</sup> 2016 of approximately \$1,224,559.29.

The Organization obtained a construction loan with Independent Bank to purchase land and construct a school and administration facilities at Crestwood Place, Little Elm, TX. The loan was originally for \$1,764,541.58 at an interest rate of 4.5% with monthly payments of \$11,452.23 and a balloon payoff April 7<sup>th</sup> 2019 of approximately \$1,522,224.01.

The Organization obtained a loan of \$750,000.00 to purchase the land and building at 11100 US Hwy 377, Pilot Point, TX for office and classrooms. The resulting loan is payable as interest only at 6%; \$3,750 monthly. There is a balloon payoff of the \$750,000.00 June 2015.

Total Long-Term Debt	\$3,815,920.21
Less Current Portion	<u>823,736.38</u>
Long-Term Portion	<u>\$2,992,183.83</u>

**SALVAGING TEENS AT RISK, INC.**  
**dba Texas Education Centers**

**Notes To Financial Statements**  
**For the Year Ended August 31, 2014**

**8. LONG-TERM DEBT(continued)**

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

<u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	823,736.38	103,889.66	927,626.04
2016	1,307,219.83	117,021.06	1,424,240.89
2017	62,889.97	74,536.79	137,426.76
2018	65,779.13	71,647.63	137,426.76
2019	1,556,294.90	46,094.72	1,602,389.62
Totals	3,815,920.21	413,189.86	4,229,110.07

**9. 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.

**10. 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.

**11. TEMPORARILY RESTRICTED NET ASSETS**

At August 31, 2014 the School had temporarily restricted net assets of \$10,348,422.58 that consisted of the following:

Local Revenues	\$ 79,969.16
State Foundation Program	9,934,601.84
State Career and Technical Allotment	4,505.75
State High School Allotment	206,729.13
Federal IDEA-B Program	86,004.10
Federal Title II, Part A Program	29,652.60
Federal GAPS Education Program	<u>6,960.00</u>
	<u>\$10,348,422.58</u>

**12. SUBSEQUENT EVENTS**

Management has reviewed subsequent events through January 2, 2015 for the purpose of evaluating the need for their inclusion in these notes. There have been no material subsequent events to note herein.

**SPECIFIC-PURPOSE  
FINANCIAL STATEMENTS**

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

Exhibit B-1

**Statement of Financial Position  
August 31, 2014**

**ASSETS**

**Current Assets**

Cash in Banks and On Hand	\$ 726,205.20
Due from State	15,042.10
Due from Federal Government	205,093.32
Interfund Receivables	137,900.37
Other Receivables	23,099.54
Capitalized Debt Issuance Costs	5,359.21
Total Current Assets	<u>1,112,699.74</u>

**Property and Equipment**

Land	2,053,027.13
Building and Improvements	11,866,095.27
Vehicles	375,133.09
Furniture and Equipment	233,090.17
Library Books and Media	44,040.00
Accumulated Depreciation	<u>(1,210,005.61)</u>
Total Property and Equipment	13,361,380.05

**Other Assets**

Other Assets	23,550.00
Total Other Assets	<u>23,550.00</u>

TOTAL ASSETS	<u>\$ 14,497,629.79</u>
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**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	\$ 60,332.11
Current Portion of Long-Term Debt	823,736.38
Payroll and Other Withholdings Payable	(1,183.16)
Accrued Wages Payable	106,823.70
Interfund Payables	137,900.37
Total Current Liabilities	<u>1,127,609.40</u>

**Long-Term Liabilities**

Notes Payable Less Current Portion	2,992,183.83
Total Long-Term Liabilities	<u>2,992,183.83</u>

**Net Assets**

Unrestricted Net Assets (Deficiency)	29,413.98
Temporarily Restricted Net Assets (Deficiency)	10,348,422.58
Total Net Assets	<u>10,377,836.56</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,497,629.79</u>
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The accompanying notes are an integral part of these financial statements.



**SALVAGING TEENS AT RISK, INC.**  
**dba TEXAS EDUCATION CENTERS**

Exhibit B-2

**Statement of Activities**  
**For the Year Ended August 31, 2014**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Totals</b>
<b><u>REVENUE AND OTHER SUPPORT</u></b>			
Local Support--			
5742 Earnings from Temporary Investments	\$	\$ 594.94	\$ 594.94
5745 Insurance Recovery		15,482.35	15,482.35
5749 Other Revenues		95,959.95	95,959.95
5751 Food Service Activity		27,802.50	27,802.50
5759 Student Activity Income		21,810.04	21,810.04
Total Local Support	0.00	161,649.78	161,649.78
State Program Revenues--			
5811 Foundation School Program-Per Capita		150,922.00	150,922.00
5812 Foundation School Program		5,289,702.00	5,289,702.00
5829 School Breakfast Program Matching		5,134.05	5,134.05
Total State Program Revenues	0.00	5,445,758.05	5,445,758.05
Federal Program Revenues--			
5919 GAPS Education Funds		400.00	400.00
5921 School Breakfast Program		35,061.26	35,061.26
5922 National School Lunch Program		135,396.51	135,396.51
5929 Title I, Part A		138,036.53	138,036.53
5929 IDEA-Part B Formula		140,338.00	140,338.00
5929 Title II, Part A		44,000.00	44,000.00
Total Federal Program Revenues	0.00	493,232.30	493,232.30
Net Assets Released from Restrictions	5,615,352.09	(5,615,352.09)	0.00
Total Revenue and Other Support	5,615,352.09	485,288.04	6,100,640.13
<b><u>EXPENSES</u></b>			
11 Instruction	3,209,690.86	----	3,209,690.86
13 Curriculum Dev. & Instructional Staff Dev.	78,178.93	----	78,178.93
23 School Leadership	448,926.93	----	448,926.93
33 Health Services	6,143.12	----	6,143.12
34 Student (Pupil) Transportation	197,100.42	----	197,100.42
35 Food Services	248,642.75	----	248,642.75
36 Cocurricular/Extracurricular Activities	16,503.95	----	16,503.95
41 General Administration	328,481.69	----	328,481.69
51 Plant Maintenance and Operations	887,116.86	----	887,116.86
52 Security and Monitoring Services	1,541.76	----	1,541.76
53 Data Processing Services	45,644.10	----	45,644.10
71 Debt Services	147,380.72	----	147,380.72
Total Expenses	5,615,352.09	0.00	5,615,352.09
<b>Change in Net Assets</b>	<b>0.00</b>	<b>485,288.04</b>	<b>485,288.04</b>
Net Assets (Deficiency), Beginning of Year	29,413.98	9,863,134.54	9,892,548.52
Net Assets (Deficiency), End of Year	\$ 29,413.98	\$ 10,348,422.58	\$ 10,377,836.56

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

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

Exhibit B-3

**Statement of Cash Flows  
For the Year Ended August 31, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Government Contracts/Grants	\$ 5,893,391.27
Cash Received from Local Sources	161,649.78
Cash Paid to Suppliers for Goods and Services	(2,017,148.26)
Cash Paid to Employees for Services	(3,154,760.51)
Cash Paid for Income Taxes	0.00
Cash Paid for Interest Expense	(147,380.72)
Net Cash Provided By Operating Activities	<u>735,751.56</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Property and Equipment	<u>(3,334,046.42)</u>
Net Cash Used By Investing Activities	(3,334,046.42)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from New Debt	1,764,541.58
Payments on Debt	<u>(49,752.92)</u>
Net Cash Provided By Financing Activities	1,714,788.66

Net Decrease in Cash	(883,506.20)
Cash at Beginning of Year	<u>1,609,711.40</u>
Cash at End of Year	<u><u>\$ 726,205.20</u></u>

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

Change in Net Assets	\$ 485,288.04
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:	
Depreciation	312,697.27
Other Asset Write-off	2,300.00
(Increase) Decrease in Operating Assets--	
Due from State/Federal Governments	(45,599.08)
Other Receivables	(21,191.03)
Deferred Expenses	32,000.00
Increase (Decrease) in Operating Liabilities--	
Accounts Payable	(134,521.36)
Payroll and Other Withholdings Payable	(2,045.98)
Accrued Wages Payable	106,823.70
Net Adjustments	<u>250,463.52</u>
Net Cash Provided By Operating Activities	<u><u>\$ 735,751.56</u></u>

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



**SUPPLEMENTARY  
SCHEDULES**

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

Exhibit C-1

**Schedule of Expenses  
For the Year Ended August 31, 2014**

**EXPENSES**

	<b><u>Totals</u></b>
6100 Payroll Costs	\$ 3,897,809.88
6200 Professional and Contracted Services	872,297.97
6300 Supplies and Materials	268,535.47
6400 Other Operating Costs	435,582.05
6500 Debt Service Costs	141,126.72
Total Expenses and Other Losses	\$ <u>5,615,352.09</u>

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

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

Exhibit D-1

**Schedule of Capital Assets  
August 31, 2014**

<u>CAPITAL ASSETS</u>	<u>Ownership Interest</u>			<u>Totals</u>
	<u>Local</u>	<u>State</u>	<u>Federal</u>	
1110 Cash	\$ 79,969.16	\$ 523,619.34	\$ 122,616.70	\$ 726,205.20
1510 Land		2,053,027.13		2,053,027.13
1520 Buildings and Improvements		11,866,095.27		11,866,095.27
1531 Vehicles		314,633.09	60,500.00	375,133.09
1539 Furniture and Equipment		193,544.17	39,546.00	233,090.17
1569 Library Books and Media		30,200.13	13,839.87	44,040.00
Total Capital Assets	\$ <u>79,969.16</u>	\$ <u>14,981,119.13</u>	\$ <u>236,502.57</u>	\$ <u>15,297,590.86</u>

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

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

Exhibit E-1

**Budgetary Comparison Schedule  
For the Year Ended August 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUE AND OTHER SUPPORT</b>				
Local Support--				
5742 Earnings from Temporary Investments	\$	\$	594.60	\$ 0.34
5745 Insurance Recovery			205,714.43	(190,232.08)
5749 Other Revenues			4,366.24	91,593.71
5751 Food Service Activity	35,000.00		27,254.45	548.05
5759 Student Activity Income	20,000.00		21,810.04	0.00
Total Local Support	55,000.00	259,739.76	161,649.78	(98,089.98)
State Program Revenues--				
5811 Foundation School Program-Per Capita			150,922.00	0.00
5812 Foundation School Program	4,520,229.00		5,335,841.00	(46,139.00)
5829 School Breakfast Program Matching	1,100.00		1,361.41	3,772.64
5829 Student Success Initiative	4,175.00		0.00	0.00
5829 State Textbook Fund	56,000.00		0.00	0.00
Total State Program Revenues	4,581,504.00	5,488,124.41	5,445,758.05	(42,366.36)
Federal Program Revenues--				
5919 GAPS Education Funds			400.00	0.00
5921 School Breakfast Program	31,900.00		35,034.76	26.50
5922 National School Lunch Program	127,000.00		134,908.01	488.50
5929 Title I, Part A	62,735.00		70,011.18	68,025.35
5929 IDEA-Part B Formula	113,456.00		134,034.13	6,303.87
5929 Title II, Part A	23,350.00		16,885.00	27,115.00
Total Federal Program Revenues	358,441.00	391,273.08	493,232.30	101,959.22
Total Revenue and Other Support	4,994,945.00	6,139,137.25	6,100,640.13	(38,497.12)
<b>EXPENSES</b>				
11 Instruction	485,301.00		3,262,394.62	52,703.76
13 Curriculum Dev. & Instructional Staff Dev.	100,000.00		98,178.93	20,000.00
21 Instructional Leadership	20,000.00		11,564.04	0.00
23 School Leadership	350,000.00		448,926.93	0.00
31 Guidance, Counseling and Evaluation Svcs.			0.00	0.00
33 Health Services	10,200.00		6,143.12	0.00
34 Student (Pupil) Transportation	200,000.00		197,100.42	0.00
35 Food Services	195,000.00		297,875.37	49,232.62
36 Cocurricular/Extracurricular Activities	4,000.00		1,585.62	(14,918.33)
41 General Administration	200,000.00		327,140.46	(1,341.23)
51 Plant Maintenance and Operations	592,800.00		964,194.57	77,077.71
52 Security and Monitoring Services	2,500.00		1,541.76	0.00
53 Data Processing Services	60,000.00		45,644.10	0.00
71 Debt Service	125,000.00		157,000.00	9,619.28
81 Fundraising			0.00	0.00
Total Expenses	2,344,801.00	5,819,289.94	5,615,352.09	203,937.85
<b>Change in Net Assets</b>	<b>2,650,144.00</b>	<b>319,847.31</b>	<b>485,288.04</b>	<b>165,440.73</b>
Net Assets (Deficiency), Beginning of Year	9,892,548.52	9,892,548.52	9,892,548.52	----
Net Assets (Deficiency), End of Year	\$ 12,542,692.52	\$ 10,212,395.83	\$ 10,377,836.56	\$ 165,440.73

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

**COMPLIANCE AND  
INTERNAL CONTROL**



# GREGORY S. DELK



CERTIFIED PUBLIC ACCOUNTANT

## INDEPENDENT AUDITOR'S REPORT

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

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

Members of the Board of Directors:

I have audited, 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, the financial statements of Salvaging Teens at Risk, Inc. dba Texas Education Centers as of and for the year ended August 31, 2014, and the related notes to the financial statements, and have issued my report thereon dated January 2, 2015.

### ***Internal Control Over Financial Reporting***

In planning and performing my audit of the financial statements, I considered Salvaging Teens at Risk, Inc. dba Texas Education Centers' internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Salvaging Teens at Risk, Inc. dba Texas Education Centers' internal control. Accordingly, I do not express an opinion on the effectiveness of Salvaging Teens at Risk, Inc. dba Texas Education Centers' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

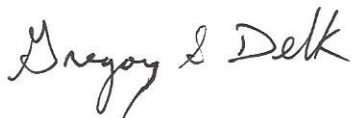
As part of obtaining reasonable assurance about whether Salvaging Teens at Risk, Inc. dba Texas Education Centers' financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an



audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Gregory S. Delk". The signature is written in a cursive style with a large, prominent 'G' and 'D'.

Gregory S. Delk, CPA  
January 2, 2015

# GREGORY S. DELK



**CERTIFIED PUBLIC ACCOUNTANT**

## **INDEPENDENT AUDITOR'S REPORT**

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

### ***Report on Compliance for Each Major Federal Program***

I have audited Salvaging Teens at Risk, Inc.'s (a non-profit organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. Salvaging Teens at Risk, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on compliance for each of Salvaging Teens at Risk, Inc.'s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Salvaging Teens at Risk, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major program. However, my audit does not provide a legal determination on Salvaging Teens at Risk, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In my opinion, Salvaging Teens at Risk, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

### ***Other Matters***

The results of my auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

### ***Report on Internal Control Over Compliance***

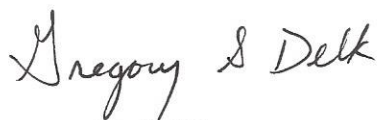
The management of Salvaging Teens at Risk, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Salvaging Teens at Risk, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an

opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Salvaging Teens at Risk, Inc. internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Gregory S. Delk, CPA  
January 2, 2015

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended August 31, 2014**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

Exhibit F-1

**FINANCIAL STATEMENTS**

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? \_\_\_\_\_ Yes  X  No

Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  No

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes  X  No

**FEDERAL AWARDS**

Internal control over major programs:

Material weaknesses identified? \_\_\_\_\_ Yes  X  No

Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  No

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? \_\_\_\_\_ Yes  X  No

Identification of major programs:  
CFDA 10.553 & 10.555 Nutrition Cluster  
CFDA 84.010 Title I, Part A  
CFDA 84.027 IDEA-B Program  
CFDA 84.367 Title II, Part A Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000.00

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes  X  No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None Identified

**SECTION III – STATE AND FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None Identified

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

**STATUS OF PRIOR AUDIT FINDINGS  
For the Year Ended August 31, 2014**

**No prior audit findings**

**SALVAGING TEENS AT RISK, INC.  
dba TEXAS EDUCATION CENTERS**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2014**

Exhibit G-1

**No Corrective Action Plan Necessary**



SALVAGING TEENS AT RISK, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended August 31, 2014

	Federal Catalog Number	Pass-through Entity Identifying Number	Federal Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<b>Passed through State Department of Education</b>			
School Breakfast/National Lunch Programs	10.553	71401201	248,642.75
	& 10.555	71301201	
<b>Total U.S. Department of Education passed through State Dept. of Education</b>			248,642.75
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>248,642.75</b>
 <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<b>Passed through State Department of Education</b>			
Title I, Part A Program	84.010	14610101061802	116,745.00
IDEA-B Program	84.027	146600010618026000	140,338.00
Title II, Part A Program	84.367	13694501061802	27,115.00
<b>Total U.S. Department of Education passed through State Dept. of Education</b>			284,198.00
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>284,198.00</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>532,840.75</b>

**SALVAGING TEENS AT RISK, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**August 31, 2014**

**NOTE 1 – STANDARD FINANCIAL ACCOUNTING SYSTEM**

For all federal programs, the corporation used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

**NOTE 2 – BASIS OF ACCOUNTING**

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented may differ from amounts presented in, or used in preparation of the basic financial statements.

**NOTE 3 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Expenditures of federal financial assistance per accompanying schedule of expenditures of federal awards included in total expenses	\$532,840.75
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