

**THE TEXAS BOYS CHOIR  
CHARTER HOLDER**

**ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**

**AUGUST 31, 2005**

**THE TEXAS BOYS CHOIR  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2005**

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THE TEXAS BOYS CHOIR

CERTIFICATE OF BOARD

AUGUST 31, 2005

The Texas Boys Choir  
Name of Charter Holder  
Federal EIN: 75-0942885

Tarrant  
County

220-809  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial and compliance reports of the above-named charter holder were reviewed and (check one)  approved  disapproved for the year ended August 31, 2005, at a meeting of the governing body of the charter holder on the 24th day of January, 2006.

Original signature on file with TEA  
Signature of Board Secretary

Original signature on file with TEA  
Signature of Board President

If the governing body of the charter holder does not approve the auditors' report, the reason(s) for disapproving it is (are): (attach list as necessary)

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

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

**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
The Texas Boys Choir  
3901 S. Hulen Street  
Fort Worth, TX 76109

We have audited the accompanying general-purpose financial statements of The Texas Boys Choir (the Charter Holder) as of and for the year ended August 31, 2005. These general-purpose financial statements are the responsibility of The Texas Boys Choir's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of The Texas Boys Choir (the Charter Holder) as of August 31, 2005, and the respective changes in net assets and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2005, on our consideration of The Texas Boys Choir's (the Charter Holder) internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Respectfully submitted,

*Freemon, Shapard and Story*

Freemon, Shapard, and Story  
November 2, 2005

**General-Purpose  
Financial Statements**

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF AUGUST 31, 2005**

	2005
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 754,984
Investments	33,046
Due from TEA	89,955
Deferred Expenses	16,172
Other Accounts Receivable, Net	85,384
<b>Total Current Assets</b>	<b>979,541</b>
<b>Assets Restricted for Endowments</b>	40,260
<b>Property and Equipment</b>	
Leasehold Improvements	304,833
Furniture and Equipment	77,714
Vehicles	230,847
Less Accumulated Depreciation	(232,155)
<b>Total Property and Equipment</b>	<b>381,239</b>
<b>Total Assets</b>	<b>\$ 1,401,040</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current liabilities:</b>	
Accounts Payable	\$ 19,251
Related Party Payable	30,000
Due to Student Groups	16,176
Deferred Revenue	218,309
Accrued Wages Payable	124,639
Accrued Payroll Deductions and Withholdings	3,974
Short Term Debt	1,227
Current Maturities of Long Term Debt	19,279
<b>Total Current Liabilities</b>	<b>432,855</b>
<b>Long-term Liabilities</b>	
Security Deposits	3,340
Long Term Debt, Net of Current Portion	25,580
<b>Total Long-term Liabilities</b>	<b>28,920</b>
<b>Total Liabilities</b>	<b>461,775</b>
<b>Net assets:</b>	
Unrestricted	517,535
Temporarily Restricted	381,470
Permanently Restricted	40,260
<b>Total Net Assets</b>	<b>939,265</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,401,040</b>

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



**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED AUGUST 31, 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	<u>2005</u>
<b>Revenues</b>				
<b>Local Support:</b>				
Other Revenues from Local Sources	\$ 103,656	\$ 436,017	\$ 2,090	\$ 541,763
Program Service Revenue	381,216	-	-	381,216
Cocurricular Activities	59,099	-	-	59,099
Total Local Support	<u>543,971</u>	<u>436,017</u>	<u>2,090</u>	<u>982,078</u>
<b>State Program Revenues</b>				
Foundation School Program Act Revenues	-	1,972,637	-	1,972,637
State Program Revenue Distributed by TEA	-	10,620	-	10,620
Federal Revenue Distributed by Other Texas Agencies	-	18,771	-	18,771
Total State Program Revenues	<u>-</u>	<u>2,002,028</u>	<u>-</u>	<u>2,002,028</u>
<b>Federal Program Revenues</b>				
Federal Revenues Distributed by TEA	<u>-</u>	<u>107,401</u>	<u>-</u>	<u>107,401</u>
<b>Other Revenues</b>				
Gain on Sale of Property	<u>3,485</u>	<u>-</u>	<u>-</u>	<u>3,485</u>
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>2,321,823</u>	<u>(2,321,823)</u>	<u>-</u>	<u>-</u>
<b>Total Revenues</b>	<u><u>2,869,279</u></u>	<u><u>223,623</u></u>	<u><u>2,090</u></u>	<u><u>3,094,992</u></u>
<b>EXPENSES</b>				
Instruction	1,101,193	-	-	1,101,193
Curriculum and Instructional Staff Development	4,425	-	-	4,425
School Leadership	127,483	-	-	127,483
Guidance, Counseling, & Evaluation Services	74,670	-	-	74,670
Health Services	8,983	-	-	8,983
Student Transportation	121,653	-	-	121,653
Food Services	64,557	-	-	64,557
Cocurricular/Extracurricular Activities	18,680	-	-	18,680
Choir Operations	370,214	-	-	370,214
General Administration	196,335	-	-	196,335
Plant Maintenance & Operations	425,880	-	-	425,880
Data Processing Services	19,830	-	-	19,830
Fundraising	<u>13,386</u>	<u>-</u>	<u>-</u>	<u>13,386</u>
Total expenses	<u>2,547,289</u>	<u>-</u>	<u>-</u>	<u>2,547,289</u>
Change in Net Assets	<u>321,990</u>	<u>223,623</u>	<u>2,090</u>	<u>547,703</u>
Net assets, beginning of year	<u>195,545</u>	<u>157,847</u>	<u>38,170</u>	<u>391,562</u>
Net assets, end of year	<u><u>\$ 517,535</u></u>	<u><u>\$ 381,470</u></u>	<u><u>\$ 40,260</u></u>	<u><u>\$ 939,265</u></u>

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

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED AUGUST 31, 2005**

	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ 547,703
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	45,605
Gain on Sale of Equipment	(1,985)
(Increase ) Decrease in Due from TEA	(35,964)
(Increase ) Decrease in Other Receivables	36,357
(Increase ) Decrease in Deferred Expenses	(2,459)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	48,658
Increase (Decrease) in Due to Student Groups	7,786
Increase (Decrease) in Deferred Revenue	9,909
Increase (Decrease) in Security Deposits	(1,150)
	654,460
<b>Net cash provided (used) by operating activities</b>	<b>654,460</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Land, Buildings and Equipment	(376,280)
Sale of Land, Buildings and Equipment	7,600
Gains Reinvested in Securities	(10,178)
Purchase of Investment Securities	(5,000)
	(383,858)
<b>Net cash provided (used) by investing activities</b>	<b>(383,858)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Issuance of Debt	80,707
Principal Payments on Debt	(53,531)
	27,176
<b>Net cash provided (used) by financing activities</b>	<b>27,176</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>297,778</b>
<b>Cash and cash equivalents, Beginning of Year</b>	<b>457,206</b>
<b>Cash and cash equivalents, End of Year</b>	<b>\$ 754,984</b>
Interest paid during the period ended August 31, 2005	\$ 2,565
Income taxes paid during the period ended August 31, 2005	None

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

**Notes to the  
Financial Statements**

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of The Texas Boys Choir (the charter holder) were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

*A. Reporting Entity*

The charter holder is a not-for-profit organization incorporated in the State of Texas in 1946 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The corporation is governed by a Board of Directors. The Board of Directors is selected pursuant to the bylaws of the corporation and has the authority to make decisions, appoint the chief executive officer of the corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the corporation.

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

*B. Corporate Operations*

The Texas Boys Choir of Fort Worth (the "Boys Choir") conducts and manages a boy's choir and provides education and training in the art of music.

The Texas Boys Choir also operates Fort Worth Academy of Fine Arts (the "Charter School"), an open-enrollment charter school providing education to kindergarten through 12<sup>th</sup> grade students authorized under Chapter 12, Subchapter D of the Texas Education Code. The Texas State Board of Education issued the initial charter to the Charterholder for a period of five years from December 6, 2000 to August 1, 2005. The corporation is in the process of having their charter renewed.

The Texas Boys Choir Walsh Endowment Fund ("Corporation") was formed as a Texas non-profit corporation in June 1988. The purpose of the Corporation is to utilize its assets to support the Boys Choir in perpetuity. The assets and activity of the Corporation are not included in the accompanying financial statements in accordance with Statement of Position 94-3 "Reporting of Related Entities by Not for Profit Organizations".

*C. Basis of Presentation*

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

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2005**

unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the corporation, the charter school and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted - -net assets required to be maintained in perpetuity with only the income to be used for the charter holder’s activities due to donor-imposed restrictions.

*D. Contributions*

The corporation accounts for contributions in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

*E. Cash and Cash Equivalents*

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

*F. Capital Assets*

Capital assets, which include buildings and improvements, furniture and equipment, vehicles and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the corporation as assets with an estimated useful life of more than one year and a cost of \$5,000 or more. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to thirty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2005**

G. *Personal Leave*

All employees of the Charter School earn five days of state paid personal and sick leave per year. There is no liability for unpaid accumulated sick leave since the School does not have a policy to pay any amounts when the employees separate from service with the School and any unused balance is transferable to other schools.

H. *Functional Allocation of Expenses*

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

2. CASH DEPOSITS

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

At August 31, 2005, the carrying amount of the charter holder's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$754,984 and the bank balance was \$872,200. The corporation's cash deposits at August 31, 2005, and during the year ended August 31, 2005, were not entirely covered by FDIC insurance or by pledged collateral held by the charter holder's agent bank in the corporation's name.

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

- a. The market value of securities pledged as of the date of the highest combined balance on deposit was \$342,404.
- a. The highest combined balances of cash, savings and time deposit accounts amounted to \$872,200 and occurred during the month of August 2005.
- b. Total amount of FDIC coverage at the time of the largest combined balance was \$434,231.

The undersecured deposits were in accounts of the Boy's Choir and not the Charter School.

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2005**

3. INVESTMENTS

The charterholder invests in marketable equity securities. The investments at August 31, 2005 are comprised of the following:

	<u>Cost</u>	<u>Market</u>
LKCM small cap equity fund	\$15,155	\$29,207
LKCM equity fund	15,299	21,482
Various equities at Merrill Lynch	<u>10,244</u>	<u>22,617</u>
Total	<u>\$40,698</u>	<u>\$73,306</u>
Unrealized gains, beginning of year		\$22,848
Unrealized gain year		<u>9,760</u>
Unrealized gains, end of year		<u>\$32,608</u>

Of the above investments, \$40,260 is permanently restricted for endowments.

4. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

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

5. PENSION PLAN

A. *Plan Description*

The charter school contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the charter school, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates 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 charter school. The report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698 or by calling (800) 877-0123.

B. *Funding Policy*

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 7.0% (6.0% TRS plus 1.0% TRS Care) of the charter school's covered payroll. The charter school's employees' contributions to the System for the year ending August 31, 2005 were \$73,033, and were equal to the required contributions for each year. Other contributions made from federal and private grants for the year ending August 31, 2005, were \$2,201, equal to the required contributions for the year. The State of Texas contributed \$65,900 on-behalf of the charter school.

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2005**

C. *Additional plans*

Employees of the charter holder are also provided with Social Security and Medicare coverage. Under provisions of federal law, covered employees contribute 6.2% (Social Security) and 1.45% (Medicare) of their annual covered salary and the charter holder contributes matching amounts of the covered payroll.

6. HEATH CARE COVERAGE

During the year ended August 31, 2005, full time employees of the charter school were covered by a health insurance plan (the Plan). The charter school paid premiums on covered employees to the Plan of \$175 per month per employee. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

7. COMMITMENTS AND CONTINGENCIES

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

8. CAPITAL ASSETS

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

	<u>Balance</u> <u>9/1/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2005</u>
Leasehold Improvements	\$ -	\$ 304,833	\$ -	\$ 304,833
Furniture and Equipment	58,316	19,398	-	77,714
Vehicles	199,854	52,049	(21,055)	230,848
Accumulated Depreciation	<u>(201,989)</u>	<u>(45,606)</u>	<u>15,440</u>	<u>(232,155)</u>
	<u>\$ 56,181</u>	<u>\$ 330,674</u>	<u>\$ (5,615)</u>	<u>\$ 381,240</u>



**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2005**

9. ECONOMIC DEPENDENCY

During the year ended August 31, 2005, the charterholder earned revenue of \$1,983,257 from the Texas Education Agency (TEA). This constitutes approximately 64% of total revenue earned. The loss of this charter agreement with TEA could have a material effect on the ability of the charter school to continue to provide the current level of services to its students.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the year ending August 31, 2005, consisted of the following:

Advanced Placement Incentives	\$	3,085
Active Employee Health Insurance Coverage		165
National School Breakfast & Lunch Program		15,924
Technology Allotment		3,527
TEA Foundation Allotment		<u>358,769</u>
Total Temporarily Restricted Net Assets	\$	<u>381,470</u>

11. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of a permanent endowment of \$40,260 with restrictions on the use of income. All permanently restricted assets were held in investments at August 31, 2005.

12. SHORT-TERM DEBT

Short-term debt at August 31, 2005 consists of the following:

Note payable for a vehicle, 7.5% interest, principal and interest due in monthly in installments of \$451, commencing September 4, 2001. Final payment due September 5, 2005. The note is secured by a vehicle.	\$	436
Note payable for a vehicle, 6.5% interest, principal and interest due in monthly in installments of \$367, commencing October 11, 2001. Final payment due October 11, 2005. The note is secured by a vehicle.		<u>791</u>
Total short-term debt	\$	<u>1,227</u>

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2005**

13. LONG-TERM DEBT

Long-term debt at August 31, 2005 consists of the following:

Note payable to Wells Fargo Bank, N.A., 5% interest, principal and interest due monthly in installments of \$244, commencing February 25, 2004. Final payment is due February 24, 2007. The note is secured by a vehicle. \$ 4,225

Note payable to Wells Fargo Bank, N.A., 6.75% interest, principal and interest due monthly in installments of \$528, commencing March 9, 2005. Final payment is due March 9, 2008. The note is secured by a vehicle. 14,954

Note payable to Wells Fargo Bank, N.A., 5.75% interest, principal and interest due monthly in installments of \$509, commencing January 18, 2005. Final payment due November 18, 2007. The note is secured by a vehicle. 12,840

Note payable to Wells Fargo Bank, N.A., 5.75% interest, principal and interest due monthly in installments of \$509, commencing January 18, 2005. Final payment due November 18, 2007. The note is secured by a vehicle. 12,840

Less current portion of long-term debt at August 31, 2005 (19,279)

Total long-term debt \$ 5,580

Future maturities of long-term debt at August 31, 2005 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 19,279	\$ 2,192	\$ 21,471
2007	18,977	1,027	20,004
2008	6,603	112	6,715
2009	-	-	-
2010	-	-	-
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 44,859</u>	<u>\$ 3,331</u>	<u>\$ 48,190</u>

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2005**

14. DEFERRED REVENUES

Deferred revenues at August 31, 2005 consisted of the following:

Deferred performance revenue	\$ 9,750
Deferred choir fees	<u>208,559</u>
	<u>\$ 218,309</u>

15. RELATED PARTY TRANSACTIONS

The assets of the Texas Boys Choir Walsh Endowment Fund (the Endowment) are a permanent endowment for the Charter Holder. Except in unusual and extraordinary circumstances, only the income derived from such assets will be disbursed. The income will primarily be used for maintenance and insurance attributable to the building and is available to the Charter Holder at the discretion of the Endowment. The land, building and improvements used by the Charter Holder are the property of the Endowment. Therefore, they are not shown in the accompanying financial statements.

Lease expense recorded by the Texas Boys Choir for the use of this land, building and improvements during the year ended August 31, 2005 was \$158,030.

As of August 31, 2005, the Charter Holder owes the Endowment \$30,000 which is reflected as a Related Party Payable on the Statement of Financial Position.

16. INTERCOMPANY ELIMINATIONS

As of August 31, the Fort Worth Academy of Fine Arts (the Charter School) had \$10,561 of accounts payable to the Charter Holder. The amount of this payable (receivable) is included in the Special Purpose Statements of Financial Position (Exhibits B-1.1 and B-1.2) and is eliminated on the combined General Purpose Statement of Financial Position (Exhibit A-1).

During the year ended August 31, 2005, the Fort Worth Academy of Fine Arts (the Charter School) recorded \$158,030 in lease expense paid to the Charter Holder. This expense (income) is included in the Special Purpose Statements of Activities (Exhibits B-2.1 and B-2.2) and is eliminated on the combined General Purpose Statement of Activities (Exhibit A-2).

**Specific-Purpose  
Financial Statements**

**FORT WORTH ACADEMY OF FINE ARTS (THE CHARTER SCHOOL)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF AUGUST 31, 2005**

	2005
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 401,668
Due from TEA	89,955
Deferred Expenses	16,172
Other Receivables	94
<b>Total Current Assets</b>	<b>507,889</b>
<b>Property and Equipment</b>	
Furniture and Equipment	11,828
Vehicles	147,352
Less Accumulated Depreciation	(84,395)
<b>Total Property and Equipment</b>	<b>74,785</b>
<b>Total Assets</b>	<b>\$ 582,674</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current liabilities:</b>	
Accounts Payable	\$ 18,904
Related Party Payable	10,561
Accrued Wages Payable	122,271
Accrued Payroll Deductions and Withholdings	3,382
Short Term Debt	1,227
Current Maturities of Long Term Debt	19,279
<b>Total Current Liabilities</b>	<b>175,624</b>
Long Term Debt, Net of Current Portion	<b>25,580</b>
<b>Total Liabilities</b>	<b>201,204</b>
<b>Net assets:</b>	
Unrestricted	-
Temporarily Restricted	381,470
<b>Total Net Assets</b>	<b>381,470</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 582,674</b>

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

**THE TEXAS BOYS CHOIR**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF AUGUST 31, 2005**

	2005
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 353,316
Investments	33,046
Related Party Receivable	10,561
Accounts Receivable, Net	85,290
<b>Total Current Assets</b>	<b>482,213</b>
<b>Assets Restricted for Endowments</b>	40,260
<b>Property and Equipment</b>	
Leasehold Improvements	304,833
Furniture and Equipment	65,886
Vehicles	83,495
Less Accumulated Depreciation	(147,760)
<b>Total Property and Equipment</b>	<b>306,454</b>
<b>Total Assets</b>	<b>\$ 828,927</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 347
Related Party Payable	30,000
Due to Student Groups	16,176
Deferred Revenue	218,309
Accrued Wages Payable	2,368
Accrued Payroll Deductions and Withholdings	592
<b>Total Current Liabilities</b>	<b>267,792</b>
<b>Long-term Liabilities</b>	
Security Deposits	3,340
<b>Total Liabilities</b>	<b>271,132</b>
<b>Net assets:</b>	
Unrestricted	517,535
Temporarily Restricted	-
Permanently Restricted	40,260
<b>Total Net Assets</b>	<b>557,795</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 828,927</b>

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

**FORT WORTH ACADEMY OF FINE ARTS (THE CHARTER SCHOOL)**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED AUGUST 31, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2005</u>
<b>Revenues</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 5,022	\$ -	\$ 5,022
5750 Cocurricular Activities	59,099	-	59,099
Total Local Support	<u>64,121</u>	-	<u>64,121</u>
State Program Revenues			
5810 Foundation School Program Act Revenues	-	1,972,637	1,972,637
5820 State Program Revenue Distributed by TEA	-	10,620	10,620
5830 Federal Revenue Distributed by Other Texas Agencies	-	18,771	18,771
Total State Program Revenues	-	<u>2,002,028</u>	<u>2,002,028</u>
Federal Program Revenues			
5920 Federal Revenues Distributed by TEA	-	107,401	107,401
Other Revenues			
7951 Gain on Sale of Property	1,985	-	1,985
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>1,853,890</u>	<u>(1,853,890)</u>	<u>-</u>
Total Revenues	<u>1,919,996</u>	<u>255,539</u>	<u>2,175,535</u>
<b>EXPENSES</b>			
11 Instruction	1,101,193	-	1,101,193
13 Curriculum and Instructional Staff Development	4,425	-	4,425
23 School Leadership	127,483	-	127,483
31 Guidance, Counseling, & Evaluation Services	74,670	-	74,670
33 Health Services	8,983	-	8,983
34 Student Transportation	121,653	-	121,653
35 Food Services	64,557	-	64,557
36 Cocurricular/Extracurricular Activities	18,680	-	18,680
41 General Administration	93,989	-	93,989
51 Plant Maintenance & Operations	343,266	-	343,266
53 Data Processing Services	19,830	-	19,830
Total expenses	<u>1,978,729</u>	-	<u>1,978,729</u>
Change in Net Assets	<u>(58,733)</u>	<u>255,539</u>	<u>196,806</u>
Net assets, beginning of year	<u>58,733</u>	<u>125,931</u>	<u>184,664</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 381,470</u>	<u>\$ 381,470</u>

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

**THE TEXAS BOYS CHOIR  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2005
<b>Revenues, Gains and Other Support</b>				
Local support:				
Foundations and Trusts	\$ 3,000	\$ 10,000	\$ -	\$ 13,000
Individuals	2,256	-	-	2,256
Corporations	2,884	-	-	2,884
Arts Council	8,000	-	-	8,000
Capital Campaign	-	426,017	-	426,017
Other	319	-	-	319
Special Events	25,229	-	-	25,229
Total Local Support	<u>41,688</u>	<u>436,017</u>	<u>-</u>	<u>477,705</u>
Program Service Revenue				
Performances	111,899			111,899
Building Rentals	204,500			204,500
Choir Fees	222,847			222,847
Total Program Service Revenue	<u>539,246</u>	<u>-</u>	<u>-</u>	<u>539,246</u>
Interest and Other Income				
Investment Income	2,806	-	-	2,806
Unrealized Gain	7,672	-	2,090	9,762
Gain(Loss) on Sale of Asset	1,500	-	-	1,500
Other	46,468	-	-	46,468
Total Interest and Other Income	<u>58,446</u>	<u>-</u>	<u>2,090</u>	<u>60,536</u>
Net Assets Released From Restrictions	<u>467,933</u>	<u>(467,933)</u>	<u>-</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>1,107,313</u>	<u>(31,916)</u>	<u>2,090</u>	<u>1,077,487</u>
<b>EXPENSES</b>				
Program Services				
Choir Operations	370,214	-	-	370,214
Support Services				
General Administration	102,346	-	-	102,346
Plant Maintenance & Operations	240,644	-	-	240,644
Fundraising	13,386	-	-	13,386
Total expenses	<u>726,590</u>	<u>-</u>	<u>-</u>	<u>726,590</u>
Change in Net Assets	<u>380,723</u>	<u>(31,916)</u>	<u>2,090</u>	<u>350,897</u>
Net assets, beginning of year	<u>136,812</u>	<u>31,916</u>	<u>38,170</u>	<u>206,898</u>
Net assets, end of year	<u>\$ 517,535</u>	<u>\$ -</u>	<u>\$ 40,260</u>	<u>\$ 557,795</u>

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



**FORT WORTH ACADEMY OF FINE ARTS (THE CHARTER SCHOOL)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED AUGUST 31, 2005**

	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ 196,806
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	31,522
Gain on Sale of Equipment	(1,985)
(Increase ) Decrease in Other Receivables	418
(Increase ) Decrease in Due From TEA	(35,964)
(Increase ) Decrease in Deferred Expenses	(4,713)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	65,796
Increase (Decrease) in Related Party Payables	(2,461)
	249,419
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Land, Buildings and Equipment	(63,877)
Sale of Land, Buildings and Equipment	7,600
Net cash provided (used) by investing activities	(56,277)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Issuance of Debt	80,707
Principal Payments on Debt	(53,531)
Net cash provided (used) by financing activities	27,176
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>220,318</b>
<b>Cash and cash equivalents, Beginning of Year</b>	<b>181,350</b>
<b>Cash and cash equivalents, End of Year</b>	<b>\$ 401,668</b>
Interest paid during the period ended August 31, 2005	\$ 2,565
Income taxes paid during the period ended August 31, 2005	None

The accompanying notes are an integral part of these financial statements

**THE TEXAS BOYS CHOIR  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2005**

	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ 350,897
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	14,083
(Increase ) Decrease in Receivables	35,939
(Increase ) Decrease in Related Party Receivables	2,461
(Increase ) Decrease in Deferred Expenses	2,254
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(17,139)
Increase (Decrease) in Due to Student Groups	7,786
Increase (Decrease) in Deferred Revenue	9,909
Increase (Decrease) in Security Deposits	<u>(1,150)</u>
Net cash provided (used) by operating activities	<u>405,040</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Land, Buildings and Equipment	(312,403)
Gains Reinvested in Securities	(10,178)
Purchase of Investment Securities	<u>(5,000)</u>
Net cash provided (used) by investing activities	<u>(327,581)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	77,459
Cash and cash equivalents, Beginning of Year	<u>275,856</u>
Cash and cash equivalents, End of Year	<u>\$ 353,315</u>
Interest paid during the period ended August 31, 2005	\$ -
Income taxes paid during the period ended August 31, 2005	None

The accompanying notes are an integral part of these financial statements

**FORT WORTH ACADEMY OF FINE ARTS (THE CHARTER SCHOOL)  
SCHEDULE OF EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2005**

<b>Expenses</b>	
6100 Payroll Costs	\$ 1,436,901
6200 Professional and Contracted Services	323,825
6300 Supplies and Material	123,214
6400 Other Operating Costs	92,222
6500 Debt	<u>2,567</u>
Total Expenses	<u>\$ 1,978,729</u>

The accompanying notes are an integral part of these statements.

**THE TEXAS BOYS CHOIR  
SCHEDULE OF EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2005**

<b>Expenses</b>	
Payroll Costs	\$ 239,270
Professional and Contracted Services	240,775
Supplies and Material	83,020
Other Operating Costs	<u>163,525</u>
 Total Expenses	 <u><u>\$ 726,590</u></u>

The accompanying notes are an integral part of these statements.

**FORT WORTH ACADEMY OF FINE ARTS (THE CHARTER SCHOOL)  
SCHEDULE OF CAPITAL ASSETS  
AS OF AUGUST 31, 2005**

	Ownership Interest		
	Local	State	Federal
1531 Vehicles	\$ -	\$ 147,352	\$ -
1539 Furniture and Equipment	-	11,828	-
1570 Less accumulated depreciation	-	(84,395)	-
Total Property and Equipment	<u>\$ -</u>	<u>\$ 74,785</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

Exhibit D-1.2

**THE TEXAS BOYS CHOIR  
SCHEDULE OF CAPITAL ASSETS  
AS OF AUGUST 31, 2005**

	Ownership Interest		
	Local	State	Federal
Leasehold Improvements	\$ 304,833	\$ -	\$ -
Vehicles	\$ 83,495		
Furniture and Equipment	65,886	-	-
Less accumulated depreciation	(147,760)	-	-
Total Property and Equipment	<u>\$ 306,454</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

**FORT WORTH ACADEMY OF FINE ARTS (THE CHARTER SCHOOL)**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 12,500	\$ 12,500	\$ 5,022	\$ (7,478)
5750 Cocurricular Activities	62,678	62,678	59,099	(3,579)
Total Local Support	75,178	75,178	64,121	(11,057)
State Program Revenues				
5810 Foundation School Program Act Revenues	1,748,970	1,748,970	1,972,637	223,667
5820 State Program Revenues Distributed by TEA	15,700	15,700	10,620	(5,080)
5830 Federal Revenues Distributed by Other State Agencies	-	19,125	18,771	(354)
Total State Program Revenues	1,764,670	1,783,795	2,002,028	218,233
Federal Program Revenues				
5920 Federal Revenues Distributed by TEA	75,723	80,268	107,401	27,133
Other Revenues				
7951 Gain on Sale of Property	-	-	1,985	1,985
Total Revenues	1,915,571	1,939,241	2,175,535	236,294
<b>EXPENSES</b>				
11 Instruction	1,042,547	1,062,260	1,101,193	(38,933)
13 Curriculum and Instructional Staff Development	-	-	4,425	(4,425)
23 School Leadership	127,159	127,659	127,483	176
31 Guidance, Counseling, & Evaluation Services	61,336	61,836	74,670	(12,834)
33 Health Services	8,774	8,981	8,983	(2)
34 Transportation	97,955	99,205	121,653	(22,448)
35 Food Services	70,628	71,128	64,557	6,571
36 Cocurricular/Extracurricular Activities	4,000	4,000	18,680	(14,680)
41 General Administration	91,857	92,357	93,989	(1,632)
51 Plant Maintenance & Operations	312,180	312,680	343,266	(30,586)
53 Data Processing Services	14,400	14,400	19,830	(5,430)
Total expenses	1,830,836	1,854,506	1,978,729	(124,223)
Change in Net Assets	84,735	84,735	196,806	112,071
Net assets, beginning of year	184,664	184,664	184,664	-
Net assets, end of year	\$ 269,399	\$ 269,399	\$ 381,470	\$ 112,071

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

**Compliance  
and  
Internal Control**



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

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

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

Board of Directors  
The Texas Boys Choir  
3901 S. Hulen Street  
Fort Worth, TX 76109

Members of the Board:

We have audited the financial statements of The Texas Boys Choir (the charter holder) as of and for the year ended August 31, 2005, and have issued our report thereon dated November 2, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Texas Boys Choir's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-1 to 2005-2.

Internal Control Over Financial Reporting

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

relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted certain immaterial instances of noncompliance that we have reported to management of the corporation in a separate letter dated November 2, 2005.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Freemon, Shapard and Story". The signature is written in black ink and is positioned above the typed name of the firm.

Freemon, Shapard & Story  
November 2, 2005

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2005**

I. Summary of Auditor's Results

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

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

<u>Program</u>	<u>Finding/Noncompliance</u>
2005-1 Pledged Securities	The Depository banks for the Boy's Choir did not pledge securities to cover funds on deposit in excess of the \$100,000 FDIC coverage provided throughout the year. Pledged securities and FDIC insurance were short \$95,565 on the date of highest deposits during the year for the Boy's Choir. The Charter school was adequately covered by pledged securities and FDIC insurance.
2005-2 Budget	The Charter School expenditures exceeded final amended budget in eight functional categories for the year as per Exhibit E-1.1. Budget should be amended in advance of funds being spent for all functional level categories each year.

III. Findings and questioned costs for state and federal awards

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

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2005**

<u>Findings/Recommendation</u>	<u>Current Status</u>	Management's Explanation <u>If Not Implemented</u>
N/A      No prior audit findings.		

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2005**

<u>Finding Number</u>	<u>Contact Person</u>	<u>Corrective Action Planned</u>	<u>Anticipated Completion Date</u>
2005-1	Dollie Blevins (817) 924-1482	The Boy's Choir will monitor the amount of securities pledged by the depository bank and will notify the banks when balance is expected to increase dramatically to obtain adequate pledged security coverage.	Fiscal Year 2005-06
2005-2	Dollie Blevins (817) 924-1482	The Charter School will review budget more closely throughout year and make certain that it is properly amended in advance of funds being spent in the future.	Fiscal Year 2005-06