

**THE TEXAS BOYS CHOIR
CHARTER HOLDER**

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

AUGUST 31, 2006

**THE TEXAS BOYS CHOIR
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2006**

TABLE OF CONTENTS

	<u>Page</u>
Certificate of Board	1
Independent Auditor's Report	2-3
General-Purpose Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14
Specific-Purpose Financial Statements	
B-1.1 Fort Worth Academy of Fine Arts Statement of Financial Position	15
B-1.2 Texas Boys Choir Statement of Financial Position	16
B-2.1 Fort Worth Academy of Fine Arts Statement of Activities	17
B-2.2 Texas Boys Choir Statement of Activities	18
B-3.1 Fort Worth Academy of Fine Arts Statement of Cash Flows	19
B-3.2 Texas Boys Choir Statement of Cash Flows	20
C-1.1 Fort Worth Academy of Fine Arts Schedule of Expenses	21
C-1.2 Texas Boys Choir Schedule of Expenses	22
D-1.1 Fort Worth Academy of Fine Arts Schedule of Capital Assets	23
D-1.2 Texas Boys Choir Schedule of Capital Assets	24

**THE TEXAS BOYS CHOIR
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2006**

TABLE OF CONTENTS (Continued)

E-1.1 Fort Worth Academy of Fine Arts Budgetary Comparison Schedule	25
Compliance and Internal Controls Section	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
F-1 Schedule of Findings and Questioned Costs	28
G-1 Summary Schedule of Prior Audit Findings	29
G-2 Corrective Action Plan	30

TEXAS BOYS CHOIR
CERTIFICATE OF BOARD
AUGUST 31, 2006

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, 2006, at a meeting of the governing body of the charter holder on the 28th day of November, 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
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Texas Boys Choir, Inc.
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, 2006. 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. The prior year summarized comparative information has been derived from the Organization's August 31, 2005 financial statements and, in our report dated November 2, 2005, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of The Texas Boy's Choir (the Charter Holder) as of August 31, 2006, and the respective changes in net assets and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006, 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

October 27, 2006

**General-Purpose
Financial Statements**

THE TEXAS BOYS CHOIR (THE CHARTER SCHOOL)
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,117,268	\$ 754,984
Investments	46,168	33,046
Due from TEA	141,806	89,955
Deferred expenses	15,862	16,172
Accounts receivable, net	147,079	85,384
Total Current Assets	1,468,183	979,541
Assets Restricted for Endowments	43,840	40,260
Property and Equipment		
Leasehold improvements	358,793	304,833
Furniture and equipment	85,459	77,714
Vehicles	209,792	230,847
Less accumulated depreciation	(258,662)	(232,155)
Total Property and Equipment	395,382	381,239
Total Assets	\$ 1,907,405	\$ 1,401,040
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 18,074	\$ 19,251
Related party payable	30,000	30,000
Due to student groups	1,703	16,176
Deferred revenue	246,909	218,309
Accrued wages payable	139,365	124,639
Accrued payroll deductions and withholdings	11,776	3,382
Other accrued liabilities	592	592
Short term debt	-	1,227
Current maturities long term debt	18,977	19,279
Total Current Liabilities	467,396	432,855
Long Term Debt		
Security deposits	3,340	3,340
Long term debt, net of current portion	6,623	25,580
Total Long Term Liabilities	9,963	28,920
Total Liabilities	477,359	461,775
Net Assets		
Unrestricted	817,075	517,535
Temporarily restricted	569,131	381,470
Permanently restricted	43,840	40,260
Total Net Assets	1,430,046	939,265
Total Liabilities and Net Assets	\$ 1,907,405	\$ 1,401,040

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

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2006	2005
Revenues					
Local Support:					
Other Revenues from Local Sources	\$ 131,726	\$ 274,159	\$ 3,580	\$ 409,465	\$ 541,763
Program Services Revenue	385,481	-	-	385,481	381,216
Cocurricular and Enterprising Activities	74,068	-	-	74,068	59,099
Total Local Support	591,275	274,159	3,580	869,014	982,078
State Program Revenues:					
Foundation School Program Act Revenues	-	2,002,174	-	2,002,174	1,972,637
State Program Revenue Distributed by TEA	-	20,806	-	20,806	10,620
State Revenue Distributed by Other Texas Agencies	-	15,875	-	15,875	18,771
Total State Program Revenues	-	2,038,855	-	2,038,855	2,002,028
Federal Program Revenues:					
Federal Revenue Distributed by TEA	-	128,292	-	128,292	107,401
Total Federal Program Revenues	-	128,292	-	128,292	107,401
Other Revenue:					
Gain on Sale of Property	7,500	-	-	7,500	3,485
Net Assets Released from Restrictions:					
Satisfaction of purpose restrictions	2,253,645	(2,253,645)	-	-	-
Total Revenues, Gains, and Other Support	2,852,420	187,661	3,580	3,043,661	3,094,992
EXPENSES					
Instruction	1,174,106	-	-	1,174,106	1,101,193
Curriculum and Instructional Staff Development	8,805	-	-	8,805	4,425
School Leadership	113,208	-	-	113,208	127,483
Guidance, Counseling, and Evaluation Services	67,808	-	-	67,808	74,670
Health Services	16,942	-	-	16,942	8,983
Student Transportation	111,998	-	-	111,998	121,653
Food Services	85,290	-	-	85,290	64,557
Cocurricular/Extracurricular Activities	9,995	-	-	9,995	18,680
Choir Operations	310,470	-	-	310,470	370,214
General Administration	201,045	-	-	201,045	196,335
Plant Maintenance and Operations	431,449	-	-	431,449	425,880
Security and Monitoring Services	80	-	-	80	-
Data Processing Services	18,780	-	-	18,780	19,830
Fundraising	2,904	-	-	2,904	13,386
Total Expenses	2,552,880	-	-	2,552,880	2,547,289
Change in Net Assets	299,540	187,661	3,580	490,781	547,703
Net Assets, Beginning of Year	517,535	381,470	40,260	939,265	391,562
Net Assets, End of Year	\$ 817,075	\$ 569,131	\$ 43,840	\$ 1,430,046	\$ 939,265

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

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 490,781	\$ 547,703
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	47,562	45,605
Gain on Sale of Equipment	-	(1,985)
(Increase) Decrease in Due from TEA	(51,851)	(35,964)
(Increase) Decrease in Receivables	(61,695)	36,357
(Increase) Decrease in Deferred Expenses	310	(2,459)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	21,944	48,657
Increase (Decrease) in Due to Student Groups	(14,473)	7,786
Increase (Decrease) in Deferred Revenue	28,600	9,909
Increase (Decrease) in Security Deposits	-	(1,150)
	461,178	654,459
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings and Equipment	(61,705)	(376,280)
Sale of Land, Buildings and Equipment	-	7,600
Gains Reinvested in Securities	(3,580)	(10,178)
Purchase of Investment Securities	(13,122)	(5,000)
	(78,407)	(383,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt	-	80,707
Principal Payments on Debt	(20,486)	(53,531)
	(20,486)	27,176
Net Increase (Decrease) in Cash and Cash Equivalents	362,285	297,777
Cash and Cash Equivalents, Beginning of Year	754,983	457,206
Cash and Cash Equivalents, End of Year	\$ 1,117,268	\$ 754,983
Interest Paid During the Period Ended August 31, 2006 and 2005	\$ 2,221	\$ 2,565
Income Taxes Paid During the Period Ended August 31, 2006 and 2005	None	None

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

**Notes to the
Financial Statements**

THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2006

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 comprised of 21 members. 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 12th 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. Subsequent to the awarding of the initial charter, the corporation applied for and received a second charter renewal in November 2006 extending the charter ten years to August 1, 2015.

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.

THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2006

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

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.

THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2006

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.

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, 2006, the carrying amount of the charter holder's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,117,268 and the bank balance was \$1,144,055. The corporation's cash deposits at August 31, 2006, and during the year ended August 31, 2006, were not entirely covered by FDIC insurance or by pledged collateral held by the charter holder's agent bank in the corporation's name.

THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2006

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 \$975,870.
- b. The highest combined balances of cash, savings and time deposit accounts amounted to \$1,144,055 and occurred during the month of August 2006.
- c. Total amount of FDIC coverage at the time of the largest combined balance was \$450,467.

The undersecured deposits were in accounts of the charter school in the Wells Fargo depository bank and were undersecured in the amount of \$21,829.

3. INVESTMENTS

The charterholder invests in marketable equity securities. The investments at August 31, 2006 are comprised of the following:

	<u>Cost</u>	<u>Market</u>
LKCM small cap equity fund	\$ 15,155	\$ 34,999
LKCM equity fund	15,503	22,850
Various equities at Merrill Lynch	<u>10,929</u>	<u>32,159</u>
Total	<u>\$ 41,587</u>	<u>\$ 90,008</u>
Unrealized gains, beginning of year		\$ 32,608
Unrealized gain year		<u>15,813</u>
Unrealized gains, end of year		<u>\$ 48,421</u>

Of the above investments, \$43,840 is permanently restricted for endowments.

4. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2006, the charter holder had no material liability for accrued sick leave or vacation leave.

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 TEXAS BOYS CHOIR (THE CHARTER HOLDER)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2006

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, 2006 and 2005 were \$78,583 and \$73,033 respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants for the year ending August 31, 2006 and 2005 were \$1,363 and \$2,201 respectively, and were equal to the required contributions for the year. For the years ending August 31, 2006 and 2005 the State of Texas contributed \$72,082 and \$65,900 respectively, on-behalf of the charter school.

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, 2006, 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.

THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2006

8. CAPITAL ASSETS

Activity in the general fixed asset accounts for the charter holder for the year ended August 31, 2006, was as follows:

	<u>Balance</u> <u>9/1/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2006</u>
Leasehold Improvements	\$ 304,833	\$ 53,960	\$ -	\$ 358,793
Furniture and Equipment	77,714	7,745	-	85,459
Vehicles	230,847	-	(21,055)	209,792
Accumulated Depreciation	<u>(232,155)</u>	<u>(47,562)</u>	<u>21,055</u>	<u>(258,662)</u>
	<u>\$ 381,239</u>	<u>\$ 14,143</u>	<u>\$ -</u>	<u>\$ 395,382</u>

9. ECONOMIC DEPENDENCY

During the year ended August 31, 2006, the charter holder earned revenue of \$2,022,980 from the Texas Education Agency (TEA). This constitutes approximately 66% of total revenue earned. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the charter school to continue to provide the current level of services to its students.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the year ending August 31, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Advanced Placement Incentives	\$ 1,234	\$ 3,085
Active Employee Health Insurance Coverage	-	165
National School Breakfast & Lunch Program	40,343	15,924
Technology Allotment	-	3,527
TEA Foundation Allotment	<u>527,554</u>	<u>358,769</u>
Total Temporarily Restricted Net Assets	<u>\$ 569,131</u>	<u>\$ 381,470</u>

THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2006

11. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets for the year ending August 31, 2006 and 2005 consist of a permanent endowment of \$43,840 and \$40,260 respectively, with restrictions on the use of income. All permanently restricted assets were held in investments at August 31, 2006.

12. LONG-TERM DEBT

Long-term debt at August 31, 2006 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.	\$ 1,443
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.	9,475
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.	7,341
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.	7,341
Less current portion of long-term debt at August 31, 2006	<u>(18,977)</u>
Total long-term debt	<u>\$ 6,623</u>

Future maturities of long-term debt at August 31, 2006 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 18,977	\$ 1,027	\$ 20,004
2008	6,603	112	6,715
2009	-	-	-
2010	-	-	-
2011	-	-	-
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 25,580</u>	<u>\$ 1,139</u>	<u>\$ 26,719</u>

THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2006

13. DEFERRED REVENUES

Deferred revenues at year-end consisted of the following:

	2006	2005
Deferred choir fees	\$ 240,135	\$ 208,559
Deferred performance revenue	6,774	9,750
	<u>\$ 246,909</u>	<u>\$ 218,309</u>

14. 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, 2006 was \$158,030.

As of August 31, 2006, the Charter Holder owes the Endowment \$30,000 which is reflected as a Related Party Payable on the Statement of Financial Position.

15. INTERCOMPANY ELIMINATIONS

As of August 31, the Fort Worth Academy of Fine Arts (the Charter School) had \$13,089 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, 2006, 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, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 555,768	\$ 401,668
Due from TEA	141,806	89,955
Deferred Expenses	15,862	16,172
Other receivables	-	94
Total Current Assets	713,436	507,889
Property and Equipment		
Furniture and equipment	11,828	11,828
Vehicles	126,297	147,352
Less accumulated depreciation	(87,239)	(84,395)
Total Property and Equipment	50,886	74,785
Total Assets	\$ 764,322	\$ 582,674
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 5,361	\$ 18,904
Related party payable	13,089	10,561
Accrued wages payable	139,365	122,271
Accrued payroll deductions and withholdings	11,776	3,382
Short term debt	-	1,227
Current maturities long term debt	18,977	19,279
Total Current Liabilities	188,568	175,624
Long Term Debt, net of current portion	6,623	25,580
Total Liabilities	195,191	201,204
Net assets		
Unrestricted	-	-
Temporarily restricted	569,131	381,470
Total Net Assets	569,131	381,470
Total Liabilities and Net Assets	\$ 764,322	\$ 582,674

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

THE TEXAS BOYS CHOIR
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 561,500	\$ 353,316
Investments	46,168	33,046
Related party receivables	13,089	10,561
Accounts receivable, net	147,079	85,290
Total Current Assets	767,836	482,213
Assets Restricted for Endowments	43,840	40,260
Property and Equipment		
Leasehold improvements	358,793	304,833
Furniture and equipment	73,631	65,886
Vehicles	83,495	83,495
Less accumulated depreciation	(171,423)	(147,760)
Total Property and Equipment	344,496	306,454
Total Assets	\$ 1,156,172	\$ 828,927
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 12,713	\$ 347
Related party payable	30,000	30,000
Due to student groups	1,703	16,176
Deferred revenue	246,909	218,309
Accrued wages payable	-	2,368
Other accrued liabilities	592	592
Total Current Liabilities	291,917	267,792
Long Term Liabilities		
Security deposits	3,340	3,340
Total Liabilities	295,257	271,132
Net assets		
Unrestricted	817,075	517,535
Temporarily restricted	-	-
Permanently restricted	43,840	40,260
Total Net Assets	860,915	557,795
Total Liabilities and Net Assets	\$ 1,156,172	\$ 828,927

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 YEARS ENDED AUGUST 31, 2006 AND 2005

	Unrestricted	Temporarily Restricted	Totals	
			2006	2005
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ 10,112	\$ -	\$ 10,112	\$ 5,022
5750 Cocurricular and Enterprising Activities	74,068	-	74,068	59,099
Total Local Support	84,180	-	84,180	64,121
State Program Revenues:				
5810 Foundation School Program Act Revenues	-	2,002,174	2,002,174	1,972,637
5820 State Program Revenues Distributed by TEA	-	20,806	20,806	10,620
5830 State Revenues Distributed by Other Texas Agencies	-	15,875	15,875	18,771
Total State Program Revenues	-	2,038,855	2,038,855	2,002,028
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	-	128,292	128,292	107,401
Total Federal Program Revenue	-	128,292	128,292	107,401
Other Revenue:				
7951 Gain on Sale of Property	7,500	-	7,500	1,985
Net Assets Released from Restrictions: Satisfaction of purpose restrictions	1,979,486	(1,979,486)	-	-
Total Revenues	2,071,166	187,661	2,258,827	2,175,535
EXPENSES				
11 Instruction	1,174,106	-	1,174,106	1,101,193
13 Curriculum Development & Instructional Staff Development	8,805	-	8,805	4,425
23 School Leadership	113,208	-	113,208	127,483
31 Guidance, Counseling, & Evaluation Services	67,808	-	67,808	74,670
33 Health Services	16,942	-	16,942	8,983
34 Student Transportation	111,998	-	111,998	121,653
35 Food Services	85,290	-	85,290	64,557
36 Cocurricular/Extracurricular Activities	9,995	-	9,995	18,680
41 General Administration	85,259	-	85,259	93,989
51 Plant Maintenance & Operations	378,895	-	378,895	343,266
52 Security and Monitoring Services	80	-	80	-
53 Data Processing Services	18,780	-	18,780	19,830
Total Expenses	2,071,166	-	2,071,166	1,978,729
Change in Net Assets	-	187,661	187,661	196,806
Net Assets, Beginning of Year	-	381,470	381,470	184,664
Net Assets, End of Year	\$ -	\$ 569,131	\$ 569,131	\$ 381,470

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

**THE TEXAS BOYS CHOIR
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2006	2005
Revenues, Gains, & Other Support					
Local Support:					
Foundations & Trusts	\$ 11,500	\$ -	\$ -	\$ 11,500	\$ 13,000
Individuals	5,278	2,190	-	7,468	2,256
Corporations	2,629	2,939	-	5,568	2,884
Arts Council	7,600	-	-	7,600	8,000
Capital Campaign	-	269,030	-	269,030	426,017
Other	5,620	-	-	5,620	319
Special Events	31,739	-	-	31,739	25,229
Total Local Support	64,366	274,159	-	338,525	477,705
Program Service Revenue					
Performances	118,657	-	-	118,657	111,899
Building Rentals	206,529	-	-	206,529	204,500
Choir Fees	218,325	-	-	218,325	222,847
Total Program Service Revenue	543,511	-	-	543,511	539,246
Interest & Other Income					
Investment Income	6,500	-	-	6,500	2,806
Unrealized Gain	12,233	-	3,580	15,813	9,762
Gain (Loss) on Sale of Assets	-	-	-	-	1,500
Other	38,515	-	-	38,515	46,468
Total Interest & Other Income	57,248	-	3,580	60,828	60,536
Net Assets Released from Restrictions	274,159	(274,159)	-	-	-
Total Revenues, Gains, & Other Support	939,284	-	3,580	942,864	1,077,487
EXPENSES					
Program Services					
Choir Operations	310,470	-	-	310,470	370,214
Support Services					
General Administration	115,786	-	-	115,786	102,346
Plant Maintenance & Operations	210,584	-	-	210,584	240,644
Fundraising	2,904	-	-	2,904	13,386
Total Expenses	639,744	-	-	639,744	726,590
Change in Net Assets	299,540	-	3,580	303,120	350,897
Net Assets, Beginning of Year	517,535		40,260	557,795	206,898
Net Assets, End of Year	\$ 817,075	\$ -	\$ 43,840	\$ 860,915	\$ 557,795

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 YEARS ENDED AUGUST 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 187,661	\$ 196,806
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	23,899	31,522
Gain on Sale of Equipment	-	(1,985)
(Increase) Decrease in Other Receivables	94	418
(Increase) Decrease in Due from TEA	(51,851)	(35,964)
(Increase) Decrease in Deferred Expenses	310	(4,713)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	11,945	65,796
Increase (Decrease) in Related Party Payables	2,528	(2,461)
	<u>174,586</u>	<u>249,419</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings and Equipment	-	(63,877)
Sale of Land, Buildings and Equipment	-	7,600
	<u>-</u>	<u>(56,277)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt	-	80,707
Principal Payments on Debt	(20,486)	(53,531)
	<u>(20,486)</u>	<u>27,176</u>
Net Increase (Decrease) in Cash and Cash Equivalents	154,100	220,318
Cash and Cash Equivalents, Beginning of Year	401,668	181,350
Cash and Cash Equivalents, End of Year	\$ <u>555,768</u>	\$ <u>401,668</u>
Interest Paid During the Period Ended August 31, 2006 and 2005	\$ 2,221	\$ 2,565
Income Taxes Paid During the Period Ended August 31, 2006 and 2005	None	None

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

**THE TEXAS BOYS CHOIR
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 303,120	\$ 350,897
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	23,663	14,083
(Increase) Decrease in Receivables	(61,789)	35,939
(Increase) Decrease in Related Party Receivables	(2,528)	2,461
(Increase) Decrease in Deferred Expenses	-	2,254
Increase (Decrease) in Accounts Payable and Accrued Liabilities	9,999	(17,139)
Increase (Decrease) in Due to Student Groups	(14,473)	7,786
Increase (Decrease) in Deferred Revenue	28,600	9,909
Increase (Decrease) in Security Deposits	-	(1,150)
	<u>286,592</u>	<u>405,040</u>
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings and Equipment	(61,705)	(312,403)
Gain Reinvested in Securities	(3,580)	(10,178)
Purchase of Investment Securities	(13,122)	(5,000)
	<u>(78,407)</u>	<u>(327,581)</u>
Net Cash Provided (Used) by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	208,185	77,459
Cash and Cash Equivalents, Beginning of Year	<u>353,315</u>	<u>275,856</u>
Cash and Cash Equivalents, End of Year	<u>\$ 561,500</u>	<u>\$ 353,315</u>
Interest Paid During the Period Ended August 31, 2006 and 2005	\$ -	\$ -
Income Taxes Paid During the Period Ended August 31, 2006 and 2005	None	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 YEARS ENDED AUGUST 31, 2006 AND 2005

Expenses	<u>2006</u>	<u>2005</u>
6100 Payroll Costs	\$ 1,468,666	\$ 1,436,901
6200 Professional and Contracted Services	360,279	323,825
6300 Supplies and Material	147,099	123,214
6400 Other Operating Costs	92,902	92,222
6500 Debt	<u>2,220</u>	<u>2,567</u>
Total Expenses	<u><u>\$ 2,071,166</u></u>	<u><u>\$ 1,978,729</u></u>

The accompanying notes are an integral part of these statements.

**THE TEXAS BOYS CHOIR
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Expenses		
Payroll Costs	\$ 248,835	\$ 239,270
Professional and Contracted Services	182,651	240,775
Supplies and Material	65,491	83,020
Other Operating Costs	<u>142,767</u>	<u>163,525</u>
 Total Expenses	 <u>\$ 639,744</u>	 <u>\$ 726,590</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, 2006**

	Ownership Interest		
	Local	State	Federal
1531 Vehicles		\$ 126,297	\$ -
1539 Furniture and Equipment	-	11,828	-
1570 Less Accumulated Depreciation	-	(87,239)	-
Total Property and Equipment	<u>\$ -</u>	<u>\$ 50,886</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

**THE TEXAS BOYS CHOIR
SCHEDULE OF CAPITAL ASSETS
AS OF AUGUST 31, 2006**

	Ownership Interest		
	Local	State	Federal
Leasehold Improvements	\$ 358,793	\$ -	\$ -
Vehicles	83,495	-	-
Furniture and Equipment	73,631	-	-
Less Accumulated Depreciation	(171,423)	-	-
Total Property and Equipment	\$ 344,496	\$ -	\$ -

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, 2006

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ -	\$ -	\$ 10,112	\$ 10,112
5750 Cocurricular Activities	65,596	65,596	74,068	8,472
Total Local Support	65,596	65,596	84,180	18,584
State Program Revenues:				
5810 Foundation School Program Act Revenues	1,850,000	1,850,000	2,002,174	152,174
5820 State Program Revenues Distributed by TEA	17,327	18,756	20,806	2,050
5830 Federal Revenues Distributed by Other State Agencies	18,084	18,084	15,875	(2,209)
Total State Program Revenues	1,885,411	1,886,840	2,038,855	152,015
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	87,287	103,776	128,292	24,516
Total Federal Program Revenues	87,287	103,776	128,292	24,516
Other Revenues				
7951 Gain on Sale of Property	-	-	7,500	7,500
Total Other Revenues	-	-	7,500	7,500
Total Revenues	2,038,294	2,056,212	2,258,827	202,615
EXPENSES				
11 Instruction	1,125,954	1,163,826	1,174,106	(10,280)
13 Curriculum Development & Instructional Staff Development	2,126	8,726	8,805	(79)
23 School Leadership	101,136	101,636	113,208	(11,572)
31 Guidance, Counseling, & Evaluation Services	63,068	64,845	67,808	(2,963)
33 Health Services	9,138	15,142	16,942	(1,800)
34 Transportation	107,186	105,786	111,998	(6,212)
35 Food Services	74,084	73,365	85,290	(11,925)
36 Cocurricular/Extracurricular Activities	6,007	6,007	9,995	(3,988)
41 General Administration	86,401	86,901	85,259	1,642
51 Plant Maintenance & Operations	343,658	377,658	378,895	(1,237)
52 Security and Monitoring Services	-	80	80	-
53 Data Processing Services	12,826	14,926	18,780	(3,854)
Total Expenses	1,931,584	2,018,898	2,071,166	(52,268)
Change in Net Assets	106,710	37,314	187,661	150,347
Net Assets, Beginning of Year	381,470	381,470	381,470	-
Net Assets, End of Year	\$ 488,180	\$ 418,784	\$ 569,131	\$ 150,347

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
Donna Hoff, CPA
Thea Neeb, CPA

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

Board of Directors
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, 2006, and have issued our report thereon dated October 27, 2006. 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 2006-1 to 2006-4.

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 October 27, 2006.

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
October 27, 2006

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2006**

I. Summary of Auditor's Results

- a. Type of auditor's report issued on the financial statements of 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, 2006.

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

<u>Program</u>	<u>Finding/Noncompliance</u>
2006-1 Pledged Securities	One depository bank for the Charter School did not pledge adequate securities to cover funds on deposits in excess of the \$100,000 FDIC coverage provided throughout the year. Pledged securities and FDIC insurance were short \$21,829 at the Wells Fargo depository bank on the date of highest deposits during the year for the Charter School. The Boy's Choir was adequately covered by pledged securities and FDIC insurance throughout the year.
2006-2 Budgetary Control	The Charter School expenditures exceeded the final amended budget in ten functional categories for the year as per Exhibit E-1.1. The budget should be amended as required in advance of funds being spent for all functional level categories each year.
2006-3 Investment Training	The Investment Officers did not obtain the appropriate amount of training as required by the TEA
2006-4 Board Training	Some of the board members did not obtain the appropriate amount of training as required by the TEA

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, 2006**

<u>Findings/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<u>2005-1 Pledged Securities</u>	Corrected for the Boy's Choir, but not for the Charter School	The School will work more closely with the depository banks in order to pledge adequate securities to cover funds on deposits in excess of the \$100,000 FDIC coverage provided throughout the year.
<u>2005-2 Budget</u>	No Change	The School will closely monitor revenues and expenditures in order to make appropriate budget amendments when necessary.

**THE TEXAS BOYS CHOIR (THE CHARTER HOLDER)
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2006**

<u>Finding Number</u>	<u>Contact Person</u>	<u>Corrective Action Planned</u>	<u>Anticipated Completion Date</u>
2006-1	Dollie Blevins (817) 924-1482	The Charter School will monitor the amount of securities pledged by the depository bank and will notify the banks when the balance is expected to increase dramatically to obtain adequate pledged security coverage.	Fiscal Year 2006-07
2006-2	Dollie Blevins (817) 924-1482	The Charter School will review the budget more closely throughout year and make certain it is properly amended in advance of funds being spent in the future.	Fiscal Year 2006-07
2006-3	Dollie Blevins (817) 924-1482	Investment Officers will be instructed to obtain the appropriate amount of training as required by the TEA.	Fiscal Year 2006-07
2006-4	Dollie Blevins (817) 924-1482	All board members will be instructed to obtain adequate training as required by the TEA	Fiscal Year 2006-07