

**THE TEXAS BOYS CHOIR, INC.
(THE CHARTER HOLDER)**

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

AUGUST 31, 2008

THE TEXAS BOYS CHOIR, INC.
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2008

TABLE OF CONTENTS

	<u>Page</u>
Certificate of Board	1
Independent Auditor's Report	2-3
General-Purpose Financial Statements	
A-1 Statement of Financial Position	4
A-2 Statement of Activities	5
A-3 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 North Texas Elementary School of the Arts Statement of Financial Position	16
B-1.3 Texas Boys Choir Statement of Financial Position	17
B-2.1 Fort Worth Academy of Fine Arts Statement of Activities	18
B-2.2 North Texas Elementary School of the Arts Statement of Activities	19
B-2.3 Texas Boys Choir Statement of Activities	20
B-3.1 Fort Worth Academy of Fine Arts Statement of Cash Flows	21
B-3.2 North Texas Elementary School of the Arts Statement of Cash Flows	22
B-3.3 Texas Boys Choir Statement of Cash Flows	23
C-1.1 Fort Worth Academy of Fine Arts Schedule of Expenses	24

**THE TEXAS BOYS CHOIR, INC.
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2008**

TABLE OF CONTENTS (Continued)

C-1.2 North Texas Elementary School of the Arts Schedule of Expenses	25
C-1.3 Texas Boys Choir Schedule of Expenses	26
D-1.1 Fort Worth Academy of Fine Arts Schedule of Capital Assets	27
D-1.2 North Texas Elementary School of the Arts Schedule of Capital Assets	28
D-1.3 Texas Boys Choir Schedule of Capital Assets	29
E-1.1 Fort Worth Academy of Fine Arts Budgetary Comparison Schedule	30
E-1.2 North Texas Elementary School of the Arts Budgetary Comparison Schedule	31
 Compliance and Internal Controls Section	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32-33
F-1 Schedule of Findings and Questioned Costs	34-37
G-1 Summary Schedule of Prior Audit Findings	38-42
G-2 Corrective Action Plan	43

THE TEXAS BOYS CHOIR, INC.

CERTIFICATE OF BOARD

AUGUST 31, 2008

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

Tarrant
County

220-809 & 220-814
Co.-Dist. Numbers

We, the undersigned, certify that the attached financial and compliance report of the above-named charter holder were reviewed and (check one) approved disapproved for the year ended August 31, 2008, at a meeting of the governing body of the charter holder on the 12th day of January, 2009.

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 independent auditors' report, the reason(s) for disapproving it is (are): (attach list as necessary)

FREEMON, SHAPARD & STORY
CERTIFIED PUBLIC ACCOUNTANTS

2088 Zihlman Road
Windthorst, Texas 76389
Ph. (940) 423-6226
Fax (940) 423-6326

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

INDEPENDENT AUDITOR'S REPORT

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

Members of the Board of Directors:

We have audited the accompanying statements of financial position of The Texas Boys Choir, Inc. (the Charter Holder) as of August 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Texas Boys Choir, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Texas Boys Choir, Inc. (the Charter Holder) as of August 31, 2008 and 2007, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2008, on our consideration of The Texas Boys Choir Inc.'s (The Charter Holder's) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Freemon, Shapard and Story

Freemon, Shapard, and Story
November 28, 2008

**General-Purpose
Financial Statements**

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2008 AND 2007

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,946,688	\$ 1,186,650
Investments	59,074	66,983
Due from TEA	137,748	269,851
Prepaid expenses	9,709	-
Deferred expenses	5,230	38,346
Accounts receivable, net	118,709	118,150
Other current assets	13,936	10,875
Total Current Assets	2,291,094	1,690,855
Assets Restricted for Endowments	44,091	48,841
Property and Equipment		
Leasehold improvements	414,818	389,641
Furniture and equipment	127,003	111,252
Vehicles	209,792	209,792
Advance on Walsh building acquisition	138,943	138,943
Less accumulated depreciation	(341,268)	(300,049)
Total Property and Equipment	549,288	549,579
Other Assets		
Prepaid insurance	-	3,421
Capitalized debt issuance cost	2,000	2,000
Total Other Assets	2,000	5,421
Total Assets	\$ 2,886,473	\$ 2,294,696
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 76,862	\$ 73,117
Due to student groups	16,162	9,033
Deferred revenue	265,937	253,577
Accrued wages payable	102,420	190,930
Due to TEA	9,340	-
Payroll deductions and withholdings	92	11,845
Other accrued liabilities	3,188	592
Current portion of long-term debt	-	6,634
Total Current Liabilities	474,001	545,728
Long Term Debt		
Security deposits	3,340	3,840
Total Long Term Liabilities	3,340	3,840
Total Liabilities	\$ 477,341	\$ 549,568
Net Assets		
Unrestricted	931,942	890,170
Temporarily restricted	1,433,099	806,117
Permanently restricted	44,091	48,841
Total Net Assets	\$ 2,409,132	\$ 1,745,128
Total Liabilities and Net Assets	\$ 2,886,473	\$ 2,294,696

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

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2008	2007
Revenues					
Local Support:					
Other Revenues from Local Sources	\$ 106,632	\$ 54,898	\$ (4,750)	\$ 156,780	\$ 214,223
Program Services Revenue	385,999	-	-	385,999	368,121
Cocurricular and Enterprising Activities	81,906	-	-	81,906	65,199
Total Local Support	574,537	54,898	(4,750)	624,685	647,543
State Program Revenues:					
Foundation School Program Act Revenues	-	3,302,777	-	3,302,777	2,164,964
State Program Revenue Distributed by TEA	-	20,924	-	20,924	22,654
Total State Program Revenues	-	3,323,701	-	3,323,701	2,187,618
Federal Program Revenues:					
Federal Revenue Distributed by TEA	-	257,579	-	257,579	294,964
Total Federal Program Revenues	-	257,579	-	257,579	294,964
Net Assets Released from Restrictions:					
Restrictions Satisfied by Payments	3,009,196	(3,009,196)	-	-	-
Total Revenues, Gains, and Other Support	\$ 3,583,733	\$ 626,982	\$ (4,750)	\$ 4,205,965	\$ 3,130,125
Expenses					
Instruction	1,836,241	-	-	1,836,241	1,353,884
Curriculum and Instructional Staff Development	6,653	-	-	6,653	6,532
School Leadership	210,649	-	-	210,649	159,840
Guidance, Counseling, and Evaluation Services	51,413	-	-	51,413	67,869
Health Services	21,924	-	-	21,924	12,930
Student Transportation	-	-	-	-	95,677
Food Services	133,084	-	-	133,084	112,843
Cocurricular/Extracurricular Activities	59,781	-	-	59,781	8,036
Choir Operations	347,620	-	-	347,620	350,244
General Administration	281,344	-	-	281,344	215,895
Plant Maintenance and Operations	563,838	-	-	563,838	407,545
Data Processing Services	25,263	-	-	25,263	19,480
Community Services	-	-	-	-	1,809
Fundraising	4,151	-	-	4,151	2,459
Total Expenses	\$ 3,541,961	\$ -	\$ -	\$ 3,541,961	\$ 2,815,043
Change in Net Assets	41,772	626,982	(4,750)	664,004	315,082
Net Assets, Beginning of Year	890,170	806,117	48,841	1,745,128	1,430,046
Net Assets, End of Year	\$ 931,942	\$ 1,433,099	\$ 44,091	\$ 2,409,132	\$ 1,745,128

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

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 664,004	\$ 315,082
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	48,020	41,387
(Increase) Decrease in Due from TEA	132,103	(128,045)
(Increase) Decrease in Accounts Receivable	(559)	28,929
(Increase) Decrease in Prepaid Expenses	(6,288)	-
(Increase) Decrease in Deferred Expenses	33,116	(22,484)
(Increase) Decrease in Other Current Assets	(3,061)	(14,296)
Increase (Decrease) in Accounts Payable	3,745	106,677
Increase (Decrease) in Due to Student Groups	7,129	7,330
Increase (Decrease) in Deferred Revenue	12,360	6,668
Increase (Decrease) in Wages Payable	(88,510)	-
Increase (Decrease) in Due to TEA	9,340	-
Increase (Decrease) in Payroll Deductions	(11,753)	-
Increase (Decrease) in Other Accrued Liabilities	2,596	-
Increase (Decrease) in Related Party Payables	-	(30,000)
Increase (Decrease) in Security Deposits	(500)	500
Net Cash Provided by Operating Activities	<u>801,742</u>	<u>311,748</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(52,756)	(195,584)
Disposal of Land, Buildings, and Equipment	5,027	-
Dividends Reinvested in Securities	(1,538)	(5,001)
Unrealized Loss on Investment Securities	14,197	(20,815)
Net Cash Used by Investing Activities	<u>(35,070)</u>	<u>(221,400)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt Issuance Costs	-	(2,000)
Principal Payments on Debt	(6,634)	(18,966)
Net Cash Used by Financing Activities	<u>(6,634)</u>	<u>(20,966)</u>
Net Increase in Cash and Cash Equivalents	760,038	69,382
Cash and Cash Equivalents, Beginning of Year	<u>1,186,650</u>	<u>1,117,268</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,946,688</u>	<u>\$ 1,186,650</u>
Interest Paid During the Period Ended August 31, 2008 and 2007	\$ 117	\$ 1,038
Income Taxes Paid During the Period Ended August 31, 2008 and 2007	None	None

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

**Notes to the
Financial Statements**

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

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 13 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 boy’s and girl’s choirs and provides education and training in the art of music.

Fort Worth Academy of Fine Arts 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 is also operated by The Texas Boys Choir. The Texas State Board of Education issued the initial charter to the charter holder 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 also operates North Texas Elementary School of the Arts, an open-enrollment charter school providing education to kindergarten through 6th 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 charter holder for a period of five years from September 15, 2006 to July 31, 2011.

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”.

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

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.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under those provisions, net assets and revenues, expenses, gains, and losses are classified based on the existence and nature 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. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. *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.

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

F. *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.

G. *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.

H. *Personal Leave*

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

I. *Functional Allocation of Expenses*

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

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 charter school 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, 2008, the combined carrying amount of the charter schools' deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$585,290 and the bank balance was \$623,670. The charter schools' cash deposits during the year ended August 31, 2008, 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, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

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

- a. The market value of securities pledged on behalf of the Fort Worth Academy of Fine Arts as of the date of the highest combined balance on deposit was \$673,912. The market value of securities pledged on behalf of North Texas Elementary School of the Arts and the Texas Boy's Choir as of the date of highest combined balance on deposit was \$668,708.
- b. The highest combined balances of cash, savings, and time deposit accounts for Fort Worth Academy of Fine Arts amounted to \$1,063,356 and occurred during the month of January 2008. The highest combined balances of cash, savings, and time deposit accounts for North Texas Elementary School of the Arts and the Texas Boy's Choir amounted to \$290,381 and \$398,377, respectively and occurred during the month of August 2008.
- c. Total amount of FDIC coverage at the time of the largest combined balance was \$200,000.

3. INVESTMENTS

The charter holder invests in marketable equity securities. The investments at August 31, 2008, are comprised of the following:

	Cost	Market
LKCM small cap equity fund	\$ 15,155	\$ 33,087
LKCM equity fund	15,503	25,264
Various equities at Merrill Lynch	11,387	44,814
Total	\$ 42,045	\$ 103,165
Unrealized gains, beginning of year		\$ 73,780
Unrealized loss year		(12,660)
Unrealized gains, end of year		\$ 61,120

Of the above investments, \$44,091 is permanently restricted for endowments.

4. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2008, the charter holder had no material liability for accrued sick leave or vacation leave.

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

5. PENSION PLAN OBLIGATIONS

A. *Plan Description*

The charter schools contribute 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 schools, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698 or by calling (800) 877-0123.

B. *Funding Policy*

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary, and the State of Texas contributes an amount equal to 7.58% (6.58% TRS plus 1.0% TRS Care) of the charter schools' covered payroll. Fort Worth Academy of Fine Art's employees' contributions to the System for the years ending August 31, 2008 and 2007, were \$86,926 and \$87,361, respectively, equal to the required contributions for each year. North Texas Elementary School of the Art's employees' contributions to the System for the year ending August 31, 2008, was \$29,935, equal to the required contribution for the year. Other contributions made from federal and private grants for the years ending August 31, 2008 and 2007, were \$2,541 and \$644, respectively, equal to the required contributions for each year for Fort Worth Academy of Fine Arts. Other contributions made from federal and private grants for the year ending August 31, 2008, was \$2,537, equal to the required contributions for the year for North Texas Elementary School of the Arts

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. HEALTH CARE COVERAGE

During the year ended August 31, 2008, 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 \$225 per month per employee. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

7. COMMITMENTS AND CONTINGENCIES

The charter schools receive funds through state and federal programs that are governed by various statutes and regulations. 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 federal programs are subject to audit and adjustment by the grantor agencies. The programs administered by the charter schools have complex compliance requirements and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agencies.

8. CAPITAL ASSETS

Capital assets at August 31, 2008 and 2007, were as follows:

	<u>Balance</u> <u>9/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2008</u>
Leasehold Improvements	\$ 389,641	\$ 25,177	\$ -	\$ 414,818
Furniture and Equipment	111,252	27,579	(11,828)	127,003
Vehicles	209,792	-	-	209,792
Advance on Walsh Building Acquisition	138,943	-	-	138,943
Accumulated Depreciation	<u>(300,049)</u>	<u>(48,020)</u>	<u>6,801</u>	<u>(341,268)</u>
	<u>\$ 549,579</u>	<u>\$ 4,736</u>	<u>\$ (5,027)</u>	<u>\$ 549,288</u>

Capital assets acquired with public funds received by the corporation for the operation of Fort Worth Academy of Fine Arts and North Texas Elementary School of the Arts constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for each individual charter school.

9. ECONOMIC DEPENDENCY

During the year ended August 31, 2008, the charter holder earned revenue of \$3,323,701 from the Texas Education Agency (TEA). This constitutes approximately 79% 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.

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ending August 31, 2008 and 2007, consisted of the following:

	<u>2008</u>	<u>2007</u>
National School Breakfast & Lunch Program	\$ 21,533	\$ 33,630
Public Charter Schools	-	27,187
Technology Allotment	1,162	1,045
Foundation School Program	<u>1,410,404</u>	<u>744,255</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,433,099</u>	<u>\$ 806,117</u>

11. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets for the years ending August 31, 2008 and 2007, consist of a permanent endowment of \$44,091 and \$48,841 respectively, with restrictions on the use of income. All permanently restricted assets were held in investments at August 31, 2008.

12. DEFERRED REVENUE

Deferred revenue at August 31, 2008 and 2007, consisted of the following:

	<u>2008</u>	<u>2007</u>
Deferred Choir Revenue	\$ 253,400	\$ 246,077
Deferred Building Revenue	1,000	-
Deferred Lunch Fees	8,037	
Deferred Performance Revenue	<u>3,500</u>	<u>7,500</u>
Total	<u>\$ 265,937</u>	<u>\$ 253,577</u>

THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

13. 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, buildings, 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, buildings, and improvements during the year ended August 31, 2008 was \$174,508.

14. INTERCOMPANY ELIMINATIONS

As of August 31, 2008, Fort Worth Academy of Fine Arts Charter School had \$12,775 and North Texas Elementary School of the Arts Charter School had \$1,923 of accounts payable to the charter holder. The amounts of these payables (receivables) are included in the Special Purpose Statements of Financial Position (Exhibits B-1.1, B-1.2, and B-1.3) and are eliminated on the combined General Purpose Statement of Financial Position (Exhibit A-1).

During the year ended August 31, 2008, the Fort Worth Academy of Fine Arts (the charter school) recorded \$174,508 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-2.3) and is eliminated on the combined General Purpose Statement of Activities (Exhibit A-2).

15. SUBSEQUENT EVENTS

In fiscal year August 31, 2006, the charter holder paid \$138,943 as an advance on the Walsh Foundation building acquisition to the Foundation. This was paid directly to Frost National Bank on behalf of the Walsh Foundation's building loan. This amount is reflected as Advance on Walsh building acquisition on the Statement of Financial Position.

Financing, acquisition of the Walsh Foundation building and building expansion are in the preliminary stages, and the ultimate cost of acquisition and remodeling will be approximately \$4,900,000. The bank has approved the loan. After the bank approves the general contractor, the charter holder will be able to proceed with construction.

**Specific-Purpose
Financial Statements**

FORT WORTH ACADEMY OF FINE ARTS CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2008 AND 2007

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,155,443	\$ 779,425
Due from TEA	73,302	71,312
Prepaid expenses	9,709	-
Other receivable	104	-
Deferred expenses	5,230	22,033
Total Current Assets	1,243,788	872,770
Property and Equipment		
Furniture and equipment	48,372	37,621
Vehicles	126,297	126,297
Less accumulated depreciation	(120,825)	(105,201)
Total Property and Equipment	53,844	58,717
Total Assets	\$ 1,297,632	\$ 931,487
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 39,575	\$ 22,728
Related party payable	12,775	12,700
Accrued wages payable	72,132	124,000
Payroll deductions and withholdings	59	11,354
Accrued expenses	1,925	-
Deferred Revenue	8,037	-
Current maturities long term debt	-	6,634
Total Current Liabilities	134,503	177,416
Total Liabilities	\$ 134,503	\$ 177,416
Net Assets		
Temporarily restricted	1,163,129	754,071
Total Net Assets	\$ 1,163,129	\$ 754,071
Total Liabilities and Net Assets	\$ 1,297,632	\$ 931,487

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

NORTH TEXAS ELEMENTARY SCHOOL OF THE ARTS CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 250,872	\$ 13,275
Due from TEA	64,446	198,539
Deferred expenses	-	16,313
Related party receivable	54	-
Other current assets	13,936	10,875
Total Current Assets	<u>329,308</u>	<u>239,002</u>
Property and Equipment		
Furniture and equipment	5,000	-
Less accumulated depreciation	<u>(1,000)</u>	<u>-</u>
Total Property and Equipment	<u>4,000</u>	<u>-</u>
Total Assets	<u>\$ 333,308</u>	<u>\$ 239,002</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 21,648	\$ 47,631
Related party payable	1,923	77,179
Accrued wages payable	29,723	61,655
Due to TEA	9,340	-
Accrued expenses	671	-
Payroll deductions and withholdings	33	491
Total Current Liabilities	<u>63,338</u>	<u>186,956</u>
Total Liabilities	<u>\$ 63,338</u>	<u>\$ 186,956</u>
Net Assets		
Temporarily restricted	<u>269,970</u>	<u>52,046</u>
Total Net Assets	<u>\$ 269,970</u>	<u>\$ 52,046</u>
Total Liabilities and Net Assets	<u>\$ 333,308</u>	<u>\$ 239,002</u>

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

THE TEXAS BOYS CHOIR
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2008 AND 2007

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 540,373	\$ 393,950
Investments	59,074	66,983
Related party receivables	14,644	89,879
Accounts receivable, net	118,605	118,150
Total Current Assets	732,696	668,962
Assets Restricted for Endowments	44,091	48,841
Property and Equipment		
Leasehold improvements	414,818	389,641
Furniture and equipment	73,631	73,631
Vehicles	83,495	83,495
Advance on Walsh building acquisition	138,943	138,943
Less accumulated depreciation	(219,443)	(194,848)
Total Property and Equipment	491,444	490,862
Other Assets		
Prepaid insurance	-	3,421
Capitalized debt issuance cost	2,000	2,000
Total Other Assets	2,000	5,421
Total Assets	\$ 1,270,231	\$ 1,214,086
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 15,639	\$ 2,758
Due to student groups	16,162	9,033
Deferred revenue	257,900	253,577
Accrued wages payable	565	5,275
Other accrued liabilities	592	592
Total Current Liabilities	290,858	271,235
Long Term Liabilities		
Security deposits	3,340	3,840
Total Liabilities	\$ 294,198	\$ 275,075
Net Assets		
Unrestricted	931,942	890,170
Permanently restricted	44,091	48,841
Total Net Assets	\$ 976,033	\$ 939,011
Total Liabilities and Net Assets	\$ 1,270,231	\$ 1,214,086

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

**FORT WORTH ACADEMY OF FINE ARTS CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ 11,029	\$ -	\$ 11,029	\$ 8,905
5750 Cocurricular and Enterprising Activities	81,906	-	81,906	65,199
Total Local Support	<u>92,935</u>	<u>-</u>	<u>92,935</u>	<u>74,104</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	-	2,416,701	2,416,701	2,140,106
5820 State Program Revenues Distributed by TEA	-	15,788	15,788	22,654
Total State Program Revenues	<u>-</u>	<u>2,432,489</u>	<u>2,432,489</u>	<u>2,162,760</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	-	118,150	118,150	121,283
Total Federal Program Revenue	<u>-</u>	<u>118,150</u>	<u>118,150</u>	<u>121,283</u>
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payments	<u>2,141,581</u>	<u>(2,141,581)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 2,234,516</u>	<u>\$ 409,058</u>	<u>\$ 2,643,574</u>	<u>\$ 2,358,147</u>
Expenses				
11 Instruction	1,292,788	-	1,292,788	1,258,721
13 Curriculum Development & Instructional Staff Development	6,428	-	6,428	6,532
23 School Leadership	131,710	-	131,710	131,573
31 Guidance, Counseling, & Evaluation Services	48,052	-	48,052	67,869
33 Health Services	18,765	-	18,765	12,930
34 Student Transportation	-	-	-	95,677
35 Food Services	133,084	-	133,084	112,843
36 Cocurricular/Extracurricular Activities	58,348	-	58,348	8,036
41 General Administration	128,187	-	128,187	86,974
51 Plant Maintenance & Operations	398,534	-	398,534	370,763
53 Data Processing Services	18,620	-	18,620	19,480
61 Community Services	-	-	-	1,809
Total Expenses	<u>\$ 2,234,516</u>	<u>\$ -</u>	<u>\$ 2,234,516</u>	<u>\$ 2,173,207</u>
Change in Net Assets	<u>-</u>	<u>409,058</u>	<u>409,058</u>	<u>184,940</u>
Net Assets, Beginning of Year	<u>-</u>	<u>754,071</u>	<u>754,071</u>	<u>569,131</u>
Net Assets, End of Year	<u>\$ -</u>	<u>\$ 1,163,129</u>	<u>\$ 1,163,129</u>	<u>\$ 754,071</u>

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

NORTH TEXAS ELEMENTARY SCHOOL OF THE ARTS CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ 126	\$ -	\$ 126	\$ -
Total Local Support	126	-	126	-
State Program Revenues:				
5810 Foundation School Program Act Revenues		886,076	886,076	24,858
5820 State Program Revenues Distributed by TEA	-	5,136	5,136	-
Total State Program Revenues	-	891,212	891,212	24,858
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	-	139,429	139,429	173,681
Total Federal Program Revenue	-	139,429	139,429	173,681
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payments	812,717	(812,717)	-	-
Total Revenues	\$ 812,843	\$ 217,924	\$ 1,030,767	\$ 198,539
Expenses				
11 Instruction	543,453	-	543,453	95,163
13 Curriculum & Instructional Staff Development	225	-	225	-
23 School Leadership	78,939	-	78,939	28,267
31 Guidance, Counseling, & Evaluation Services	3,361	-	3,361	-
33 Health Services	3,159	-	3,159	-
36 Cocurricular/Extracurricular Activities	1,433	-	1,433	-
41 General Administration	37,027	-	37,027	13,641
51 Plant Maintenance & Operations	138,603	-	138,603	9,422
53 Data Processing Services	6,643	-	6,643	-
Total Expenses	812,843	-	812,843	146,493
Change in Net Assets	-	217,924	217,924	52,046
Net Assets, Beginning of Year	-	52,046	52,046	-
Net Assets, End of Year	\$ -	\$ 269,970	\$ 269,970	\$ 52,046

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

**THE TEXAS BOYS CHOIR
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2008	2007
Revenues, Gains, & Other Support					
Local Support:					
Foundations & Trusts	\$ 6,692	\$ -	\$ -	\$ 6,692	\$ 14,025
Individuals & Corporations	28,898	-	-	28,898	55,815
Arts Council	11,586	-	-	11,586	9,008
Capital Campaign	-	6,436	-	6,436	8,076
Special Events	24,380	-	-	24,380	23,862
Total Local Support	71,556	6,436	-	77,992	110,786
Program Service Revenue					
Performances	73,936	-	-	73,936	85,438
Building Rentals	234,519	-	-	234,519	211,928
Choir Fees	252,052	-	-	252,052	228,785
Total Program Service Revenue	560,507	-	-	560,507	526,151
Interest & Other Income					
Investment Income	7,908	-	-	7,908	10,607
Unrealized Gain (Loss)	(9,378)	-	(4,750)	(14,128)	25,325
Other	25,391	48,462	-	73,853	58,600
Total Interest & Other Income	23,921	48,462	(4,750)	67,633	94,532
Net Assets Released from Restrictions	54,898	(54,898)	-	-	-
Total Revenues, Gains, & Other Support	\$ 710,882	\$ -	\$ (4,750)	\$ 706,132	\$ 731,469
EXPENSES					
Program Services					
Choir Operations	347,620	-	-	347,620	350,244
Support Services					
General Administration	116,130	-	-	116,130	115,280
Plant Maintenance & Operations	201,209	-	-	201,209	185,390
Fundraising	4,151	-	-	4,151	2,459
Total Expenses	\$ 669,110	\$ -	\$ -	\$ 669,110	\$ 653,373
Change in Net Assets	41,772	-	(4,750)	37,022	78,096
Net Assets, Beginning of Year	890,170		48,841	939,011	860,915
Net Assets, End of Year	\$ 931,942	\$ -	\$ 44,091	\$ 976,033	\$ 939,011

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

**FORT WORTH ACADEMY OF FINE ARTS CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 409,058	\$ 184,940
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	22,425	17,962
(Increase) Decrease in Prepaid Expenses	(9,709)	-
(Increase) Decrease in Other Receivables	(104)	-
(Increase) Decrease in Due from TEA	(1,990)	70,494
(Increase) Decrease in Deferred Expenses	16,803	(6,171)
Increase (Decrease) in Accounts Payable	16,847	1,580
Increase (Decrease) in Accrued Expenses	1,925	-
Increase (Decrease) in Payroll Deductions	(11,295)	-
Increase (Decrease) in Wages Payable	(51,868)	-
Increase (Decrease) in Deferred Revenue	8,037	-
Increase (Decrease) in Related Party Payables	75	(389)
Net Cash Provided by Operating Activities	<u>400,204</u>	<u>268,416</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(22,579)	(25,793)
Disposal of Land, Buildings, and Equipment	5,027	-
Net Cash Used by Investing Activities	<u>(17,552)</u>	<u>(25,793)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Debt	(6,634)	(18,966)
Net Cash Used by Financing Activities	<u>(6,634)</u>	<u>(18,966)</u>
Net Increase in Cash and Cash Equivalents	376,018	223,657
Cash and Cash Equivalents, Beginning of Year	<u>779,425</u>	<u>555,768</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,155,443</u>	<u>\$ 779,425</u>
Interest Paid During the Period Ended August 31, 2008 and 2007	\$ 117	\$ 1,038
Income Taxes Paid During the Period Ended August 31, 2008 and 2007	None	None

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

**NORTH TEXAS ELEMENTARY SCHOOL OF THE ARTS CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 217,924	\$ 52,046
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	1,000	-
(Increase) Decrease in Due from TEA	134,093	(198,539)
(Increase) Decrease in Deferred Expenses	16,313	(16,313)
(Increase) Decrease in Related Party Receivable	(54)	-
(Increase) Decrease in Other Current Assets	(3,061)	(10,875)
Increase (Decrease) in Accounts Payable	(25,983)	109,777
Increase (Decrease) in Wages Payable	(31,932)	-
Increase (Decrease) in Due to TEA	9,340	-
Increase (Decrease) in Accrued Expenses	671	-
Increase (Decrease) in Payroll Deductions	(458)	-
Increase (Decrease) in Related Party Payables	<u>(75,256)</u>	<u>77,179</u>
Net Cash Provided by Operating Activities	<u>242,597</u>	<u>13,275</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	<u>(5,000)</u>	<u>-</u>
Net Cash Used by Investing Activities	<u>(5,000)</u>	<u>-</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
 Net Increase in Cash and Cash Equivalents	237,597	13,275
Cash and Cash Equivalents, Beginning of Year	<u>13,275</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ 250,872</u>	<u>\$ 13,275</u>
 Interest Paid During the Period Ended August 31, 2008 and 2007	\$ -	\$ -
Income Taxes Paid During the Period Ended August 31, 2008 and 2007	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, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 37,022	\$ 78,096
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	24,595	23,425
(Increase) Decrease in Account Receivable	(455)	28,929
(Increase) Decrease in Related Party Receivables	75,235	(76,790)
(Increase) Decrease in Prepaid Insurance	3,421	(3,421)
Increase (Decrease) in Accounts Payable	12,881	(4,680)
Increase (Decrease) in Due to Student Groups	7,129	7,330
Increase (Decrease) in Deferred Revenue	4,323	6,668
Increase (Decrease) in Wages Payable	(4,710)	-
Increase (Decrease) in Related Party Payables	-	(30,000)
Increase (Decrease) in Security Deposits	(500)	500
Net Cash Provided by Operating Activities	<u>158,941</u>	<u>30,057</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(25,177)	(169,791)
Dividends Reinvested in Securities	(1,538)	(5,001)
Unrealized Loss on Investment Securities	14,197	(20,815)
Net Cash Used by Investing Activities	<u>(12,518)</u>	<u>(195,607)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt Issuance Costs	-	(2,000)
Net Cash Used by Financing Activities	<u>-</u>	<u>(2,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	146,423	(167,550)
Cash and Cash Equivalents, Beginning of Year	<u>393,950</u>	<u>561,500</u>
Cash and Cash Equivalents, End of Year	<u>\$ 540,373</u>	<u>\$ 393,950</u>
Interest Paid During the Period Ended August 31, 2008 and 2007	\$ -	\$ -
Income Taxes Paid During the Period Ended August 31, 2008 and 2007	None	None

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

**FORT WORTH ACADEMY OF FINE ARTS CHARTER SCHOOL
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

Expenses	<u>2008</u>	<u>2007</u>
6100 Payroll Costs	\$ 1,533,410	\$ 1,550,194
6200 Professional and Contracted Services	412,374	374,460
6300 Supplies and Materials	173,524	159,448
6400 Other Operating Costs	115,090	88,067
6500 Debt	118	1,038
	<u>118</u>	<u>1,038</u>
Total Expenses	<u><u>\$ 2,234,516</u></u>	<u><u>\$ 2,173,207</u></u>

The accompanying notes are an integral part of these statements.

**NORTH TEXAS ELEMENTARY SCHOOL OF THE ARTS CHARTER SCHOOL
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

Expenses	2008	2007
6100 Payroll Costs	\$ 539,369	\$ 89,146
6200 Professional and Contracted Services	166,553	9,919
6300 Supplies and Materials	98,706	46,708
6400 Other Operating Costs	8,215	720
6500 Debt	-	-
Total Expenses	\$ 812,843	\$ 146,493

The accompanying notes are an integral part of these statements.

**THE TEXAS BOYS CHOIR
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

Expenses	<u>2008</u>	<u>2007</u>
Payroll Costs	\$ 207,426	\$ 250,171
Professional and Contracted Services	196,162	175,051
Supplies and Materials	62,890	40,164
Other Operating Costs	<u>202,632</u>	<u>187,987</u>
 Total Expenses	 <u><u>\$ 669,110</u></u>	 <u><u>\$ 653,373</u></u>

The accompanying notes are an integral part of these statements.

**FORT WORTH ACADEMY OF FINE ARTS CHARTER SCHOOL
SCHEDULE OF CAPITAL ASSETS
AS OF AUGUST 31, 2008**

	Ownership Interest		
	Local	State	Federal
1541 Vehicles	\$ -	\$ 126,297	\$ -
1539 Furniture and Equipment	-	39,253	9,119
1570 Less Accumulated Depreciation	-	(120,174)	(651)
Total Property and Equipment	\$ -	\$ 45,376	\$ 8,468

The accompanying notes are an integral part of these statements.

**NORTH TEXAS ELEMENTARY SCHOOL OF THE ARTS CHARTER SCHOOL
SCHEDULE OF CAPITAL ASSETS
AS OF AUGUST 31, 2008**

	Ownership Interest		
	Local	State	Federal
1539 Furniture and Equipment	\$ -	\$ -	\$ 5,000
1570 Less Accumulated Depreciation	-	-	(1,000)
Total Property and Equipment	\$ -	\$ -	\$ 4,000

The accompanying notes are an integral part of these statements.

**THE TEXAS BOYS CHOIR
SCHEDULE OF CAPITAL ASSETS
AS OF AUGUST 31, 2008**

	Ownership Interest		
	Local	State	Federal
Leasehold Improvements	\$ 414,818	\$ -	\$ -
Vehicles	83,495	-	-
Furniture and Equipment	73,631	-	-
Advance on Walsh Building Acquisition	138,943	-	-
Less Accumulated Depreciation	(219,443)	-	-
Total Property and Equipment	<u>\$ 491,444</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

**FORT WORTH ACADEMY OF FINE ARTS CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ -	\$ 2,454	\$ 11,029	\$ 8,575
5750 Cocurricular and Enterprising Activities	65,082	84,217	81,906	(2,311)
Total Local Support	65,082	86,671	92,935	6,264
State Program Revenues:				
5810 Foundation School Program Act Revenues	1,864,918	2,046,293	2,416,701	370,408
5820 State Program Revenues Distributed by TEA	-	14,237	15,788	1,551
Total State Program Revenues	1,864,918	2,060,530	2,432,489	371,959
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	93,326	110,851	118,150	7,299
Total Federal Program Revenues	93,326	110,851	118,150	7,299
Total Revenues	\$ 2,023,326	\$ 2,258,052	\$ 2,643,574	\$ 385,522
Expenses				
11 Instruction	1,312,978	1,333,152	1,292,788	40,364
13 Curriculum & Instructional Staff Development	2,113	6,428	6,428	-
23 School Leadership	128,182	142,771	131,710	11,061
31 Guidance, Counseling, & Evaluation Services	65,367	54,368	48,052	6,316
33 Health Services	19,573	19,649	18,765	884
35 Food Services	-	108,853	133,084	(24,231)
36 Cocurricular/Extracurricular Activities	17,297	43,114	58,348	(15,234)
41 General Administration	86,137	128,877	128,187	690
51 Plant Maintenance & Operations	298,360	422,521	398,534	23,987
53 Data Processing Services	15,121	-	-	-
61 Community Services	-	18,335	18,620	(285)
Total Expenses	1,945,128	2,278,068	2,234,516	43,552
Change in Net Assets	78,198	(20,016)	409,058	429,074
Net Assets, Beginning of Year	754,071	754,071	754,071	-
Net Assets, End of Year	\$ 832,269	\$ 734,055	\$ 1,163,129	\$ 429,074

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

**NORTH TEXAS ELEMENTARY SCHOOL OF THE ARTS CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ -	\$ -	\$ 126	\$ 126
Total Local Support	-	-	126	126
State Program Revenues:				
5810 Foundation School Program Act Revenues	630,000	658,589	886,076	227,487
5820 State Program Revenues Distributed by TEA	-	4,036	5,136	1,100
Total State Program Revenues	630,000	662,625	891,212	228,587
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	449,000	226,678	139,429	(87,249)
Total Federal Program Revenues	449,000	226,678	139,429	(87,249)
Total Revenues	\$ 1,079,000	\$ 889,303	\$ 1,030,767	\$ 141,464
Expenses				
11 Instruction	669,537	589,577	543,453	46,124
13 Curriculum & Instructional Staff Development	11,126	11,426	225	11,201
23 School Leadership	27,000	93,640	78,939	14,701
31 Guidance, Counseling, & Evaluation Services	5,000	5,696	3,361	2,335
33 Health Services	500	1,640	3,159	(1,519)
36 Cocurricular/Extracurricular Activities	-	1,245	1,433	(188)
41 General Administration	16,505	35,340	37,027	(1,687)
51 Plant Maintenance & Operations	100,678	144,203	138,603	5,600
53 Data Processing Services	-	6,536	6,643	(107)
Total Expenses	\$ 830,346	\$ 889,303	\$ 812,843	\$ 76,460
Change in Net Assets	248,654	-	217,924	217,924
Net Assets, Beginning of Year	52,046	52,046	52,046	-
Net Assets, End of Year	\$ 300,700	\$ 52,046	\$ 269,970	\$ 217,924

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

**Compliance
and
Internal Control**

FREEMON, SHAPARD & STORY
CERTIFIED PUBLIC ACCOUNTANTS

2088 Zihlman Road
Windthorst, Texas 76389
(940)423-6226
Fax (940)423-6326

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

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards***

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

Members of the Board of Directors:

We have audited the financial statements of The Texas Boys Choir, Inc. (the charter holder) as of and for the year ended August 31, 2008, and have issued our report thereon dated November 28, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Texas Boys Choir, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Texas Boys Choir, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Texas Boys Choir, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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 2008-1 through 2008-5.

We noted certain matters that we reported to management of The Texas Boys Choir, Inc. in a separate letter dated November 28, 2008.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and the Texas Education Agency and other federal 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 "Freeman, Shapard and Story".

Freeman, Shapard, & Story
November 28, 2008

**THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2008**

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements of the auditee	Unqualified
2. Significant deficiencies in internal controls disclosed by the audit of the financial statements	None
a. Significant deficiencies that were material weaknesses	None
3. Noncompliance material to the financial statements of the auditee disclosed by the audit of the financial statements	None
4. Significant deficiencies in internal controls over major programs disclosed by the audit of the financial statements	Not Applicable
a. Significant deficiencies that were material weaknesses	Not Applicable
5. Type of auditor's report issued on compliance for major programs	Not Applicable
6. Findings disclosed by the audit of the financial statements which the auditor is required to report	See Below
7. Under the guidelines of OMB Circular A-133, a Single Audit was not required for the year ended August 31, 2008.	

II. Findings relating to the financial statements, which are required to be reported in accordance with generally accepted government auditing standards

Finding 2008-1

Criteria

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

Condition

The Fort Worth Academy of Fine Arts Charter School expenditures exceeded the final amended budget in three functional categories for the year as per Exhibit E-1.1. The North Texas Elementary School of the Arts Charter School expenditures exceeded the final amended budget in four functional categories for the year as per Exhibit E-1.2; however, the only material differences occurred in Function 35 and 36 in Fort Worth Academy of Fine Arts Charter School.

Effect

The expenditures exceeded the final amended budget without board approval.

Cause

Fort Worth Academy of Fine Arts Charter School did not budget for depreciation and commodities.

Recommendation

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

Management Response

Fort Worth Academy of Fine Arts Charter School will include depreciation and commodities in next year's budget.

Finding 2008-2

Criteria

Experienced board members must obtain six hours of board member training every year, and new board members must obtain twelve hours of board member training their first year of service.

Condition

None of the board members received the required board member training for the 2007-08 year.

Effect

The board members may not be aware of changes and updates in charter school rules and regulations.

Cause

The board members did not attend the required board training seminars.

Recommendation

All board members must receive the required board training every year.

Management Response

The board members will be advised to receive the required board training every year.

Finding 2008-3

Criteria

Experienced finance managers must obtain fifteen hours of training every year, and new finance managers must obtain thirty hours of training their first year of service.

Condition

The finance manager did not receive the required training for the 2007-08 year.

Effect

The finance manager may not be aware of changes and updates in charter school rules and regulations.

Cause

The finance manager did not attend the required training seminars.

Recommendation

The finance manager must receive the required training every year.

Management Response

The finance manager will be advised to receive the required training every year.

Finding 2008-4

Criteria

The investment officer must obtain ten hours of investment training every two years.

Condition

The investment officer did not receive the required investment training for the 2007-08 year.

Effect

The investment officer may not be aware of changes and updates in investment policies.

Cause

The investment officer did not attend the required investment training seminars.

Recommendation

The investment officer must receive the required investment officer training every two years.

Management Response

The investment officer has already received the required investment officer training in the 2008-09 year.

Finding 2008-5

Criteria

Depository banks must pledge adequate securities to cover funds on deposit in excess of the \$100,000 FDIC coverage.

Condition

Pledged securities were not adequate to cover the charter holder's deposits on the day of the highest daily cash balance.

Effect

Deposits not covered by pledged securities or FDIC insurance are at-risk.

Cause

Daily cash balances were not monitored carefully in order to increase necessary pledged securities as needed.

Recommendation

Daily cash balances will be monitored carefully to ensure adequate cash coverage.

Management Response

Management is monitoring daily cash balances carefully to ensure adequate cash coverage throughout the year.

III. Findings and questioned costs for state and federal awards

None Identified.

**THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2008**

Finding 2007-1

Criteria

The depository bank for Fort Worth Academy of Fine Arts Charter School did not pledge adequate securities to cover funds on deposit in excess of the \$100,000 FDIC coverage.

Condition

The Fort Worth Academy of Fine Arts Charter School's deposits were at-risk if they bank should fail.

Effect

The Fort Worth Academy of Fine Arts Charter School's deposits over \$100,000 covered by FDIC would be lost if the bank collapsed.

Recommendation

The depository banks should pledge securities to cover the charter holder's deposits over the \$100,000 covered by FDIC.

Management Response

The charter holder will have the depository banks pledge securities to cover the charter holder's deposits over the \$100,000 covered by FDIC.

Status

The depository banks did not pledge enough securities in the 2007-08 year to cover the charter holder's deposits.

Management's Explanation for not implementing the Recommendation

The charter holder has increased monitoring of daily cash balances and pledged securities and believes this problem has been corrected.

Finding 2007-2

Criteria

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

Condition

The Fort Worth Academy of Fine Arts Charter School expenditures exceeded the final amended budget in seven functional categories.

Effect

The expenditures exceeded the final amended budget without board approval.

Recommendation

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

Management Response

The charter schools will review the budget more closely throughout the year and amend the budget in advance of funds being spent.

Status

Although there was a considerable improvement in this area, there were still two material functional categories where expenditures exceeded the final amended budget.

Management's Explanation for not implementing the Recommendation

The charter schools did not budget for depreciation and commodities in the 2007-08 year. This will be corrected in the 2008-09 year.

Finding 2007-3

Criteria

The investment officer must obtain ten hours of investment training every two years.

Condition

The investment officer did not receive the required investment training for the 2006-07 year.

Effect

The investment officer may not be aware of changes and updates in investment policies.

Recommendation

The investment officer must receive the required investment officer training every two years.

Management Response

Investment officers will be instructed to obtain the appropriate amount of training as required by the TEA.

Status

The investment officers did not receive the investment officer training in the 2007-08 year.

Management's Explanation for not implementing the Recommendation

The investment officer has already received the required investment officer training in the 2008-09 year.

Finding 2007-4

Criteria

Experienced finance managers must obtain fifteen hours of training every year, and new finance managers must obtain thirty hours of training their first year of service.

Condition

The finance manager did not receive the required training for the 2006-07 year.

Effect

The finance manager may not be aware of changes and updates in charter school rules and regulations.

Recommendation

The finance manager must receive the required training every year.

Management Response

The finance manager will be advised to receive the required training every year.

Status

The finance manager did not receive the required training in the 2007-08 year.

Management's Explanation for not implementing the Recommendation

The finance manager has already attended training sessions in the 2008-09 year.

Finding 2007-5

Criteria

Experienced board members must obtain six hours of board member training every year, and new board members must obtain twelve hours of board member training their first year of service.

Condition

None of the board members received the required board member training for the 2006-07 year.

Effect

The board member may not be aware of changes and updates in charter school rules and regulations.

Recommendation

All board members must receive the required board training every year.

Management Response

The board members will be advised to receive the required board training every year.

Status

The board members did not receive the required board training in the 2007-08 year.

Management's Explanation for not implementing the Recommendation

The board members have been advised of the requirement but have chosen not to abide by the requirement.

Finding 2007-6

Criteria

The charter school must spend 85% of the allotted state funding for state compensatory education on state compensatory education expenditures.

Condition

The charter school failed to spend 85% of the allotted state funding for state compensatory education on state compensatory education expenditures. The state compensatory program allotment was underspent by \$625.

Effect

The at-risk students did not receive all of the funding that they were allotted.

Recommendation

85% of the allotted state funding for state compensatory education should be spent on state compensatory education expenditures.

Management Response

The charter school will budget and spend the required 85% of state compensatory education allotments on state compensatory education expenditures.

Status

The charter school corrected this in the 2007-08 year.

Management's Explanation for not implementing the Recommendation

N/A

Finding 2007-7

Criteria

The charter school must spend 85% of the allotted state funding for special education on special education expenditures.

Condition

The charter school failed to spend 85% of the allotted state funding for special education on special education expenditures. The special education program allotment was underspent by \$5,273.

Effect

The special education students did not receive all of the funding that they were allotted.

Recommendation

85% of the allotted state funding for special education should be spent on special education expenditures.

Management Response

The charter school will budget and spend the required 85% of special education allotments on special education expenditures.

Status

The charter school corrected this in the 2007-08 year.

Management's Explanation for not implementing the Recommendation

N/A

**THE TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2008**

<u>Finding Number</u>	<u>Contact Person</u>	<u>Corrective Action Planned</u>	<u>Anticipated Completion Date</u>
2008-1	Dollie Blevins (817) 924-1482	The Charter Schools 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 2008-09
2008-2	Dollie Blevins (817) 924-1482	All board members will be instructed to obtain adequate training as required by the TEA.	Fiscal Year 2008-09
2008-3	Dollie Blevins (817) 924-1482	The business manager will be instructed to obtain the appropriate amount of training as required by the TEA.	Fiscal Year 2007-08
2008-4	Dollie Blevins (817) 924-1482	Investment Officers will be instructed to obtain the appropriate amount of training as required by the TEA.	Fiscal Year 2007-08
2008-5	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 2007-08