

ANNUAL FINANCIAL REPORT

of

CEDARS ACADEMY

DBA

*CEDARS INTERNATIONAL
ACADEMY*

For the Years Ended
August 31, 2013 and 2012

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CEDARS ACADEMY

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August 31, 2013 and 2012

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CEDARS ACADEMY
CERTIFICATE OF BOARD

Cedars Academy
Name of Charter Holder

74-2960628
Federal Employer ID Number

Cedars International Academy
Name of Charter School

Travis
County

227-817
Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance reports of the above named Charter Holder were reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2013, at a meeting of the governing body of the Charter Holder on the _____ day of _____, 2013.

Signature of Board Secretary

Signature of Board President

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Cedars Academy:

Report on the Financial Statements

We have audited the accompanying financial statements of Cedars Academy (the "Charter Holder") dba Cedars International Academy (a nonprofit organization), which comprise the statement of financial position as of August 31, 2013 and 2012, and the related statement of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charter Holder as of August 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The financial schedules noted as supplemental information in the table of contents are presented for purposes of additional analysis, and are not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013 on our consideration of 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Holder's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
November 4, 2013

FINANCIAL STATEMENTS

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CEDARS ACADEMY
STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1
August 31, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 463,397	\$ 446,704
Other investments	-	110,035
Due from Texas Education Agency	21,548	15,123
Due from others	17,921	4,163
Other receivables	-	1,461
Prepaid expenses	9,342	-
Total current assets	512,208	577,486
Non-current assets:		
Long term investments	228,429	-
Property and equipment, net	1,931,516	1,960,495
Total non-current assets	2,159,945	1,960,495
Total Assets	\$ 2,672,153	\$ 2,537,981
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 21,824	\$ 11,622
Current portion of long-term debt	79,567	79,567
Total current liabilities	101,391	91,189
Long-term liabilities:		
Bonds payable	1,171,758	1,331,312
Total long-term liabilities	1,171,758	1,331,312
Total Liabilities	1,273,149	1,422,501
Net assets:		
Unrestricted	597,872	512,521
Temporarily restricted	801,132	602,959
Total Net Assets	1,399,004	1,115,480
Total Liabilities and Net Assets	\$ 2,672,153	\$ 2,537,981

See Notes to Financial Statements.

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CEDARS ACADEMY

STATEMENTS OF ACTIVITIES - EXHIBIT A-2

For the Years Ended August 31, 2013 and 2012

Revenues	Unrestricted	Temporarily Restricted	Totals	
			2013	2012
Local support:				
5740 Other revenues from local sources	\$ 85,351	\$ -	\$ 85,351	\$ 22,793
5750 Revenue from cocurricular or enterprising	-	40,148	40,148	37,414
5760 Revenue from intermediate sources	-	-	-	15,330
Total local support	85,351	40,148	125,499	75,537
State program revenues				
5810 Foundation school program act revenues	-	2,348,966	2,348,966	1,919,030
5820 State program revenues distributed by Texas Education Agency	-	24,744	24,744	926
Total state program revenue	-	2,373,710	2,373,710	1,919,956
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	479,781	479,781	441,337
Net assets released from restrictions:				
Restricted satisfied by payments	2,695,466	(2,695,466)	-	-
Total Revenues	2,780,817	198,173	2,978,990	2,436,830
Expenses				
11 Instruction	1,668,707	-	1,668,707	1,236,509
13 Curriculum development and instructional staff development	11,857	-	11,857	18,435
21 Instructional leadership	51,399	-	51,399	47,232
23 School leadership	121,344	-	121,344	113,208
31 Guidance, counseling and evaluation services	45,692	-	45,692	46,103
33 Health services	300	-	300	165
35 Food services	192,438	-	192,438	167,646
36 Cocurricular/extracurricular activities	30,921	-	30,921	26,126
41 General administration	170,464	-	170,464	158,559
51 Plant maintenance and operations	307,924	-	307,924	287,008
52 Security and monitoring services	1,787	-	1,787	1,289
53 Data processing services	29,208	-	29,208	28,896
61 Community services	31,131	-	31,131	17,861
71 Debt service	32,294	-	32,294	63,792
Total Expenses	2,695,466	-	2,695,466	2,212,829
Change in Net Assets				
Change in Net Assets	85,351	198,173	283,524	224,001
Beginning net assets	512,521	602,959	1,115,480	891,479
Ending Net Assets	\$ 597,872	\$ 801,132	\$ 1,399,004	\$ 1,115,480

See Notes to Financial Statements.

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CEDARS ACADEMY

STATEMENTS OF CASH FLOWS - EXHIBIT A-3

For the Years Ended August 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Revenue from cocurricular or enterprising	\$ 41,609	\$ 51,283
Foundation school program payments	2,373,710	1,919,956
Grant payments	459,598	458,498
Miscellaneous sources	85,351	22,793
Payments to vendors for goods and services rendered	(601,643)	(399,698)
Payments to charter school personnel for services rendered	(1,887,748)	(1,574,271)
Interest payments	(32,294)	(63,792)
Net Cash Provided by Operating Activities	438,583	414,769
Cash Flows from Investing Activities		
Payments for property and equipment	(143,942)	(133,751)
Sale of investments	110,035	-
Purchase of investments	(228,429)	(110,035)
Net Cash (Used) by Investing Activities	(262,336)	(243,786)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(159,554)	(142,258)
Net Cash (Used) by Financing Activities	(159,554)	(142,258)
Net Change in Cash and Cash Equivalents	16,693	28,725
Beginning cash and cash equivalents	446,704	417,979
Ending Cash and Cash Equivalents	\$ 463,397	\$ 446,704
Adjustments to Reconcile to Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in net assets	\$ 283,524	\$ 224,001
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	172,921	164,347
(Increase) decrease in:		
Due from Texas Education Agency	(6,425)	17,073
Due from others	(13,758)	88
Other receivables	1,461	(1,461)
Prepaid expenses	(9,342)	-
Increase (decrease) in:		
Accounts payable	10,202	10,721
Net Cash Provided by Operating Activities	\$ 438,583	\$ 414,769

See Notes to Financial Statements.

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CEDARS ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended August 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of Cedars Academy (the “Charter Holder”) dba Cedars International Academy (a non-profit organization) were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Charter Holder is a not-for-profit organization incorporated in the State of Texas in May 2000 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Charter Holder is governed by a Board of Directors comprised of eight members. The Board of Directors is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Charter Holder.

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

Corporate Operations

In May 2000, the State Board of Education of the State of Texas granted the Charter Holder an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Cedars International Academy was opened. Cedars International Academy was organized to provide educational services to “at risk” students. The Charter Holder’s Board of Directors governs their programs, services, activities and functions. For the school year 2012-2013, Cedars International Academy served grades pre-kindergarten through eighth grade.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

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 Charter Holder, the charter school and/or the passage of time. When a restriction expires,

CEDARS ACADEMY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2013 and 2012

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.

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.

Contributions

The Charter Holder accounts for contributions 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.

Cash and Cash Equivalents

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

Investments

The Charter Holder has adopted FASB ASC 958-320, *Accounting for Certain Investments Held by Not-for-Profit Organizations* (formerly SFAS No. 124). Under FASB ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported as current and noncurrent investments at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities as a change in net assets.

Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose financial statements. Capital assets are defined by the Charter Holder as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to 20 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.

CEDARS ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2013 and 2012

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents held as of August 31, 2013

	2013	
	Cost Basis	Market Value
Cash on hand and in financial institutions	\$ 453,385	\$ 453,385
Money market funds	10,012	10,012
	\$ 463,397	\$ 463,397

Cash and cash equivalents held as of August 31, 2012

	2012	
	Cost Basis	Market Value
Cash on hand and in financial institutions	\$ 446,704	\$ 446,704
Money market funds	-	-
	\$ 446,704	\$ 446,704

The Charter Holder maintains the majority of its cash balances in two financial institutions located in Houston and Austin, Texas. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At August 31, 2013 and 2012, the Charter Holder's cash balances were fully insured and collateralized.

NOTE 3 – INVESTMENTS

Investments are reported in the statement of financial position at fair value and realized and unrealized gains and losses are reported in the statement of activities.

Short-term investments are investments with an original maturity greater than 90 days that will mature within one year of the fiscal year end. Long-term investments are investments that will mature in greater than one year after the fiscal year end. Investments held as of August 31, 2013 are summarized as follows:

	2013	
	Cost Basis	Market Value
Municipal Taxable Bonds	\$ 228,429	\$ 228,429
	\$ 228,429	\$ 228,429

NOTE 4 – FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements and Disclosures* (formerly FASB Statement No. 157), establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Charter has the ability to access.
- Level 2 Inputs to the valuation methodology include:

CEDARS ACADEMY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2013 and 2012

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2013.

Municipal taxable bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Charter believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at August 31, 2013 are as follows:

Description	Fair Value	Significant Other Observable Inputs (Level 2)
Long-term investments		
Municipal Taxable Bonds	\$ 228,429	\$ 228,429
	\$ 228,429	\$ 228,429

The long term investments are reported at fair value on a recurring basis determined by reference to significant other observable inputs.

CEDARS ACADEMY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2013 and 2012

NOTE 5 – CAPITAL ASSETS

Capital assets at August 31, 2013 and 2012 were as follows:

	2013	2012
Buildings and improvements	\$ 2,816,416	\$ 2,672,474
Furniture and equipment	81,074	81,074
Total Property and Equipment	2,897,490	2,753,548
Less accumulated depreciation	(965,974)	(793,053)
Property and Equipment, Net	\$ 1,931,516	\$ 1,960,495

Capital assets acquired with public funds received by the Charter Holder for the operation of the charter school constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the schedule of capital assets.

Depreciation expense for the 2013 and 2012 fiscal years was \$172,921 and \$164,347, respectively.

NOTE 6 – LONG-TERM DEBT

The Charter Holder entered into a Tri-Party Loan Agreement in May 2007 with the La Vernia Higher Education Finance Corporation (the "Corporation") and Amegy Bank to obtain financing for the building located at 8416 N. IH-35, Austin, TX. Financing was obtained in the form of two promissory notes. The Corporation has assigned its rights, title, and interest in these notes to Amegy Bank. These notes are referred to as the tax-exempt note in the principal amount of \$1,683,670 and the taxable note in the principal amount of \$176,330. The tax-exempt note originally carried an interest rate of 4.910 percent. On May 1, 2012, this rate was adjusted to a fixed rate equal to 65 percent of the five year LIBOR Swap Rate plus 1.65 percent and this rate will continue through maturity on May 1, 2017. The taxable note originally carried an interest rate of 6.750 percent. On May 1, 2012, this rate was adjusted to a fixed rate equal to the sum of the five year LIBOR Swap Rate plus 1.75 percent and this rate will continue through maturity on May 1, 2017.

	Beginning Balance	Additions	Reductions	Ending Balance
Tax-Exempt Note	\$ 1,385,392	\$ -	\$ (134,067)	\$ 1,251,325
Taxable Note	25,487	-	(25,487)	-
	\$ 1,410,879	\$ -	\$ (159,554)	\$ 1,251,325

Future maturities of long term debt at August 31, 2013 are as follows:

Year Ended August 31	Principal	Interest	Total
2014	\$ 79,567	\$ 30,804	\$ 110,371
2015	83,401	28,700	112,101
2016	85,345	26,756	112,101
2017	1,003,012	18,611	1,021,623
	\$ 1,251,325	\$ 104,871	\$ 1,356,196

Total interest expense for fiscal years 2013 and 2012 was \$32,294 and \$63,792, respectively.

CEDARS ACADEMY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2013 and 2012

NOTE 7 – PENSION PLAN OBLIGATIONS

Plan Description

The Charter Holder contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the Charter Holder, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, www.trs.state.tx.us.

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas State legislature. The State funding policy is as follows: (1) the State constitution requires the legislature to establish a member contribution rate of not less than six percent of the member's annual compensation and a State contribution rate of not less than six percent and not more than ten percent of the aggregate annual compensation of all members of the system; (2) State statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds one year, the period would be increased by such action. State law provides for a member contribution rate of 6.4 percent for fiscal year 2013, 2012, and 2011, and a state contribution rate of 6.4 percent for fiscal year 2013 and 6.64 percent for fiscal years 2012 and 2011. The Charter Holder's employees' contributions to the System for the years ending August 31, 2013, 2012, and 2011 were \$91,017, \$75,120, and \$70,882, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants for the years ending August 31, 2013, 2012, and 2011 were \$12,329, \$11,784, and \$7,514, respectively, equal to the required contributions for each year.

NOTE 8 – RETIREE HEALTH CARE PLAN

Plan Description

The Charter contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

CEDARS ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2013 and 2012

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were .50 percent and 0.65 percent of school payroll, respectively, with the Charter Holder contributing a percentage of payroll set at 0.55 percent for fiscal years 2013, 2012, and 2011. Per Texas Insurance Code, Chapter 1575, the school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the years ended August 31, 2013, 2012, and 2011, the State's contributions to TRS-Care were \$977, \$1,840, and \$1,210, respectively; the active member contributions were \$9,244, \$7,629, and \$7,199, respectively; and the Charter Holder's contributions were \$7,822, \$6,456, and \$6,091, respectively, which equaled the required contributions each year.

NOTE 9 – HEALTH CARE COVERAGE

During the year ended August 31, 2013, employees of the Charter Holder were covered by TRS Active Employee Insurance Plan (the "Plan"). The Charter Holder contributed \$298 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

NOTE 10 – DUE FROM STATE

As of August 31, 2013 and 2012, the Charter Holder's due from State consisted of the following:

	2013	2012
State Foundation Program	\$ 13,519	\$ -
ESEA Title I Part A – Improving Basic Programs	6,914	15,123
ESEA Title II Part A – Teacher & Principal	1,115	-
Total	\$ 21,548	\$ 15,123

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Charter Holder receives 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 ("TEA") and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Charter Holder have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the TEA or the grantor agency.

The last three years of informational tax returns, 2012, 2011, and 2010, filed with the IRS remain subject to examination.

CEDARS ACADEMY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2013 and 2012

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

As of August 31, 2013 and 2012, the Charter Holder's temporarily restricted net assets consisted of the following:

	2013	2012
State Foundation Program	\$ 738,524	\$ 555,184
National School Lunch and Breakfast Program	52,849	45,850
Campus Activity Fund	9,759	1,925
Total	<u>\$ 801,132</u>	<u>\$ 602,959</u>

NOTE 13 – STATE FOUNDATION PROGRAM REVENUE

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period and, at the close of the year, actual attendance is calculated by the TEA. The attendance reports are subject to audit by the TEA and final State foundation program earnings may be adjusted as a result of any such audit. During the years ended August 31, 2013 and 2012, the Charter Holder was paid \$2,348,966 and \$1,919,030, respectively, of State foundation program funds of which all was earned (before any possible TEA enrollment and attendance audit).

NOTE 14 – SHARED SERVICE ARRANGEMENTS

The Charter Holder participates as a member in the Austin Area Special Education Cooperative, which is a shared services arrangement (SSA) for special education services. The fiscal agent is NYOS Charter School, Inc. The Charter Holder accounts for revenues and expenditures in this program and discloses them in these financial statements. The Charter Holder neither has joint ownership interest in fixed assets purchased by the fiscal agent or NYOS Charter School, Inc. The Charter Holder does not have a net equity interest in the fiscal agent. The fiscal agent is not accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the Charter Holder. The Charter Holder received \$50,762 in services by being a member of this cooperative.

The Charter Holder participates as a member in the Austin Area 21st Century Community Learning Centers Cooperative which is an SSA for establishing or expanding community learning center services. The fiscal agent is NYOS Charter School, Inc. The Charter Holder accounts for revenues and expenditures in this program and discloses them in these financial statements. The Charter Holder neither has joint ownership interest in fixed assets purchased by the fiscal agent or NYOS Charter School, Inc. The Charter Holder does not have a net equity interest in the fiscal agent. The fiscal agent is not accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the Charter Holder. The Charter Holder received \$143,620 in services by being a member of this cooperative.

NOTE 15 – CHARTER HOLDER OPERATIONS

The Charter Holder operated one charter school, Cedars International Academy, and did not conduct any other charter or non-charter activities.

NOTE-16 – SUBSEQUENT EVENTS

Disclosure of any subsequent events have been evaluated through the date of the independent auditors' report.

SUPPLEMENTAL INFORMATION

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CEDARS ACADEMY
SCHEDULES OF EXPENSES - EXHIBIT C-1
For the Years Ended August 31, 2013 and 2012

Expenses	Totals	
	2013	2012
6100 Payroll costs	\$ 1,887,748	\$ 1,574,271
6200 Professional and contracted services	231,175	199,412
6300 Supplies and materials	319,431	178,770
6400 Other operating costs	224,818	196,584
6500 Debt	32,294	63,792
Total Expenses	\$ 2,695,466	\$ 2,212,829

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CEDARS ACADEMY
SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1
 August 31, 2013

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ -	\$ 2,651,617	\$ 164,799
1539 Furniture and equipment	-	26,097	7,000
1549 Furniture and equipment	-	-	47,977
Total Property and Equipment	\$ -	\$ 2,677,714	\$ 219,776

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CEDARS ACADEMY
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND - EXHIBIT E-1

For the Year Ended August 31, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 500	\$ -	\$ 85,351	\$ 85,351
5750 Revenue from Cocurricular or Enterprising	2,700	-	2,412	2,412
Total Local Support	<u>3,200</u>	<u>-</u>	<u>87,763</u>	<u>87,763</u>
5810 Foundation school program act revenues	<u>2,109,574</u>	<u>2,377,759</u>	<u>2,348,966</u>	<u>(28,793)</u>
Total Revenues	<u>2,112,774</u>	<u>2,377,759</u>	<u>2,436,729</u>	<u>58,970</u>
Expenses				
11 Instruction	1,357,095	1,485,076	1,414,626	70,450
13 Curriculum development and instructional staff development	14,750	15,000	6,993	8,007
23 School leadership	126,537	126,518	121,344	5,174
31 Guidance, counseling and evaluation services	40,000	35,431	32,000	3,431
33 Health services	300	300	300	-
36 Co-curricular/extracurricular activities	9,600	15,555	14,321	1,234
41 General administration	163,408	175,266	170,464	4,802
51 Plant maintenance and operations	164,507	152,986	140,651	12,335
52 Security and monitoring services	1,600	2,350	1,787	563
53 Data processing services	28,923	29,223	29,208	15
61 Community services	-	34,000	31,131	2,869
71 Debt service	34,064	34,064	32,294	1,770
Total Expenses	<u>1,940,784</u>	<u>2,105,769</u>	<u>1,995,119</u>	<u>110,650</u>
Change in Net Assets	<u>\$ 171,990</u>	<u>\$ 271,990</u>	441,610	<u>\$ 169,620</u>
Reconciliation to Ending Net Assets				
Change in net assets due to activity in other funds			(158,086)	
Depreciation			(172,921)	
Change in Net Assets (all funds)			<u>283,524</u>	
Beginning net assets			1,115,480	
Ending Net Assets			<u>\$ 1,399,004</u>	

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OVERALL COMPLIANCE AND INTERNAL CONTROLS

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INDEPENDENT AUDITORS' 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*

November 4, 2013

To the Board of Directors of
Cedars Academy:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cedars Academy (the "Charter Holder") dba Cedars International Academy (a nonprofit organization), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter Holder's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Charter Holder's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder's internal control.

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

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

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

1304 South Front St.
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Holder's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter Holder's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Holder's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

CEDARS ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1

For the Year Ended August 31, 2013

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of audit report issued

Unmodified

Internal control over financial reporting:

One or more material weakness(es) identified?

No

One or more significant deficiency(ies) identified that are not considered to be material weaknesses?

No

Noncompliance material to financial statements noted?

No

II. FINANCIAL STATEMENT FINDINGS

None identified.

III. FINDINGS AND QUESTIONED COSTS FOR STATE AND FEDERAL AWARDS

None identified.

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CEDARS ACADEMY

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - EXHIBIT G-1

For the Year Ended August 31, 2013

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
None		

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