

Audit Report

**CEDARS
ACADEMY
AUSTIN, TEXAS**

***FOR THE YEAR ENDED
AUGUST 31, 2005***

**John R. Pechacek, CPA
Bellville, Texas**

**CEDARS ACADEMY
AUSTIN, TEXAS
AUDIT FOR THE YEAR ENDED AUGUST 31, 2005**

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CERTIFICATE OF BOARD

CEDARS ACADEMY
Name of Charter Holder

74-2960628
Federal Employer ID Number

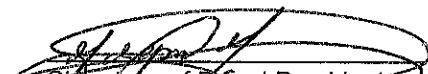
CEDARS INTERNATIONAL ACADEMY
Name of Charter School

TRAVIS
County

227-817
Co. -Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named Charter Holder were reviewed and (check one) approved disapproved for the period ended August 31, 2005, at a meeting of the board of directors of such school district on the 15 day of November, 2005


Signature of Board Secretary


Signature of Board President

If the board of directors disapproved of the auditor's report, the reason(s) for disapproving it is (are):
(attach list as necessary)

John R. Pechacek
Certified Public Accountant

P.O. Box 549 • Bellville, Texas 77418-0549 • 979.865.3169 • Fax 979.865.9829

Independent Auditor's Report

Unqualified Opinion on Financial Statements

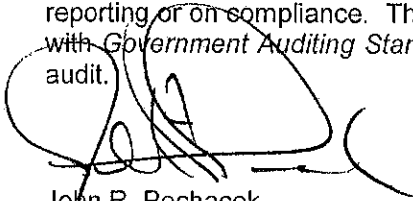
Board of Directors
Cedars Academy
Austin, Texas

I have audited the accompanying statement of financial position of Cedars Academy (a nonprofit organization) as of August 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Charter Holder's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cedars Academy as of August 31, 2005 and 2004, and the respective changes in its 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*, I have also issued my report dated October 18, 2005, on my consideration of Cedar Academy's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control 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 my audit.



John R. Pechacek,
October 18, 2005

**BASIC
FINANCIAL STATEMENTS**

CEDARS ACADEMY
STATEMENT OF FINANCIAL POSITION
 Fiscal Year Ended August 31, 2005

ASSETS	<u>2005</u>	<u>2004</u>
Current Assets -		
Cash on Hand and In Banks	\$ 143,884	\$ 34,077
Due from Texas Education Agency	64,629	60,168
Total Current Assets	<u>208,513</u>	<u>94,244</u>
Fixed Assets Net of Accumulated Depreciation	269,760	222,897
Total Assets	<u><u>478,273</u></u>	<u><u>317,142</u></u>
 LIABILITIES AND NET ASSETS		
Current Liabilities -		
Accounts Payable	9,250	-
Due to TRS	-	-
Payroll Liabilities	3,749	3,260
Due to State	181	92
Deferred Revenue	-	730
Notes Payable	17,848	-
Total Current Liabilities -	<u>31,027</u>	<u>4,082</u>
Total Long-Term Liabilities	60,846	-
Total Liabilities	91,873	4,082
Net Assets -		
Unrestricted (Deficiency)	239,721	54,522
Temporarily Restricted (Deficiency)	146,679	258,538
Total Net Assets	<u>386,400</u>	<u>313,060</u>
Total Liabilities and Net Assets	<u><u>\$ 478,273</u></u>	<u><u>\$ 317,142</u></u>

(The accompanying notes are an integral part of this financial statement.)

CEDARS ACADEMY
STATEMENT OF ACTIVITIES

iscal Year Ended August 31, 2005

	2005			2004
	Unrestricted	Temporarily Restricted	Totals	
REVENUE AND OTHER SUPPORT				
Local Support-				
5730 Revenue from Afterschool Program	\$ -	\$ -	\$ -	\$ -
5740 Other Revenue from Local Sources	52,140	-	52,140	35,050
5750 Revenue from Cocurr or Enterpr	24,982	-	24,982	24,770
5760 Revenue from Intermed Sources	-	-	-	-
Total Local Support	77,122	-	77,122	59,820
State Program Revenues-				
5810 Foundation School Program	140,061	793,680	933,741	771,904
5820 State Matching Funds	-	462	462	370
5820 Accelerated Reading Program	-	9,764	9,764	7,050
5820 Technology Allotment	-	4,263	4,263	3,755
5830 TRS Supplemental Health Ins	-	9,500	9,500	9,299
Total State Program Revenues	140,061	817,669	957,730	792,378
Federal Program Revenues-				
5920 Title IV, Part A Safe and Drug Free	-	760	760	-
5920 Title I, Part A Improving Basic Prog	-	22,440	22,440	-
5920 Child Nutrition Program	-	45,691	45,691	30,349
5920 USDA Donated Commodities	-	2,899	2,899	-
5920 Title II, Part A Teacher Prin Training	-	6,512	6,512	-
5920 Title II, Part D Enh Ed Thru Tech	-	609	609	-
5920 Title V, Part A Innovative Programs	-	412	412	-
Total Federal Program Revenues	-	79,323	79,323	30,349
Interest and Other Revenues	-	-	-	-
Net Assets Released from Restrictions	1,008,852	(1,008,852)	-	-
Total Revenue and Other Support	1,226,034	(111,859)	1,114,175	882,547
EXPENSES AND OTHER LOSSES				
11 Instruction	620,919	-	620,919	489,302
12 Instructional Resources	909	-	909	2,068
13 Curr Development and Instr St Devel	2,940	-	2,940	7,044
23 School Leadership	48,726	-	48,726	-
31 Guidance, Counseling, Eval Services	24,630	-	24,630	35,028
33 School Health	360	-	360	1,132
35 Food Services	81,205	-	81,205	53,642
36 Extracurricular/Cocurricular Act	352	-	352	5,399
41 Administration	82,782	-	82,782	134,672
51 Plant Maintenance	129,303	-	129,303	114,786
52 Security	549	-	549	410
53 Data Processing	12,000	-	12,000	15,550
61 Community Services	36,161	-	36,161	21,749
81 Fund Raising	-	-	-	1,122
Total Expenses	1,040,836	-	1,040,836	881,904
Change in Net Assets	185,198	(111,859)	73,339	644
Net Assets (Deficiency), Beginning of Year	54,522	258,538	313,060	312,416
Net Assets (Deficiency), End of Year	\$ 239,721	\$ 146,679	\$ 386,400	\$ 313,060

(The accompanying notes are an integral part of this financial statement.)

CEDARS ACADEMY
STATEMENT OF CASH FLOWS
iscal Year Ended August 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	2005	2004
Foundation School Program Payments	\$ 929,996	\$ 793,244
Grant Payments	99,092	56,173
Contributions from Fund-Raising	100	9,679
Miscellaneous Sources	77,022	50,141
Cash Paid to Suppliers for Goods and Services	(263,309)	(209,221)
Cash Paid to Employees for Services	(743,038)	(658,026)
Net Cash Provided by Operating Activities	99,863	41,990
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(68,750)	(21,450)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (Payments on) Note Payable	95,000	-
Proceeds from (Payments on) Note Payable	(16,306)	-
Net Increase in Cash and Cash Equivalents	109,807	20,540
Cash and Cash Equivalents at Beginning of Year	34,077	13,537
Cash and Cash Equivalents at End of Year	\$ 143,884	\$ 34,077

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

Change in Net Assets	\$ 73,339	\$ 644
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	21,888	15,774
(Increase) Decrease in Net Assets-		
Due from Texas Education Agency	(4,462)	25,904
Increase (Decrease) in Operating Liabilities-		
Accounts Payable	9,250	(3,332)
Payroll Liabilities	489	5,805
Due to TRS	-	(3,591)
Due to State	89	56
Deferred Revenue	(730)	730
Net Cash Provided by Operating Activities	\$ 99,863	\$ 41,990

(The accompanying notes are an integral part of this financial statement.)

CEDARS ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2005

Note 1: Summary of Significant Accounting Policies

The general-purpose financial statements of Cedars Academy (the corporation) 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.

Reporting Entity

The corporation 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. A Board of Directors comprised of six members governs the corporation. 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.

Corporate Operations

In May 2000, the State Board of Education of the State of Texas granted the corporation 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 for the academic year 2001-2002. Cedars International Academy was organized to provide educational services to students in grades K-7 and the corporation's board of directors governs their programs, services, activities and functions.

Basis of Presentation

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

CEDARS ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2005

Note 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

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.

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.

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 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 twenty 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
Fiscal Year Ended August 31, 2005

Note 2: Capital Assets

As of August 31, 2005 and 2004, the Charter Holder's capital assets consisted of the following:

	<u>Cedars Academy</u>	<u>2005</u>	<u>2004</u>
Land	\$	-	\$ -
Buildings and improvements		291,245	201,045
Furniture and Equipment		33,097	33,097
Construction in Progress		-	21,450
Total property and equipment		<u>324,342</u>	<u>255,592</u>
Less accumulated depreciation		54,583	32,695
Property and equipment, net	\$	<u>269,760</u>	\$ <u>222,897</u>

Capital assets acquired with public funds received by the corporation for the operation of Cedars Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Note 3: Debt

As of August 31, 2005, Cedars Academy debt consisted of the following:

	<u>Cedars Academy</u>	<u>Amount</u>
Note payable to Frost Bank .	\$	78,694
The original amount of the loan was \$95,000 on August 17, 2004. The outstanding loan amount on August 31, 2005 was \$78,694. The loan has a floating interest rate.		
Less Current Portion of Long-Term Debt		17,848
Total Long-Term Debt	\$	<u>60,847</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	\$ 17,848	\$ 4,059	\$ 21,907
2006-2007	18,901	3,005	21,906
2007-2008	20,017	1,890	21,907
2008-2009	21,927	708	22,635
Total	<u>\$ 78,694</u>	<u>\$ 9,662</u>	<u>\$ 88,355</u>

CEDARS ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2005

Note 4: Pension Plan Obligations

Plan Description

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

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 6.0% of the charter school's covered payroll. Cedars Academy employees' contributions to the System for the years ending August 31, 2005 and 2004 were \$ 31,711 and \$33,326, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the year ending August 31, 2005 were \$1,543, equal to the required contribution for the year.

Note 5: Health Care Coverage

During the year ended August 31, 2005, employees of Cedars Academy were covered by the TRS Active Employee Health Insurance Plan (the Plan). The Academy contributed \$225 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 6: Deferred Revenue

As of August 31, 2005, the Charter Holder had no deferred revenue.

Note 7: Due from State

As of August 31, 2005, the Charter Holder's due from State consisted of the following:

<u>Cedars Academy</u>	<u>2005</u>
Foundation School Program Year 2005-2006	\$ 62,480
Accelerated Reading Program Year 2004-2005	2,149
Total	\$ <u>64,629</u>

CEDARS ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2005

Note 8: Due to State

As of August 31, 2005, the Charter Holder's due to state consisted of the following:

	<u>Cedars Academy</u>	<u>2005</u>
TRS Supplemental Insurance Year 2004-2005	\$	181
Total	\$	<u>181</u>

Note 9: Temporarily Restricted Net Assets

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

	<u>Cedars Academy</u>	<u>2005</u>
Foundation School Program	\$	152,914
Technology Allotment		2,566
Food Services		<u><8,801></u>
Total	\$	<u>146,679</u>

Note 10: 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 agency. The programs administered by the charter school 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 agency.

Note 11: Operating Leases

Cedars Academy entered into a lease agreement with Eparchy of Our Lady of Lebanon of Los Angeles DBA Our Lady's Maronite Catholic Church on August 1, 2002 through July 31, 2006. The monthly rental payment was \$4,500 from September 2004 through December 2004 and \$5,000 from January 2005 through July 2005 and \$5,500 in August 2005. The property is located at 1320 East 51st Street, Austin, Texas.

CEDARS ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2005

Note 12: 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 Texas Education Agency and the amount of State Foundation Program earnings is calculated. The enrollment and attendance reports are subject to audit by the Texas Education Agency and final State Foundation Program earnings may be adjusted as a result of any such audit. During the year ended August 31, 2005, Cedars Academy was paid \$929,996 of State Foundation Program funds of which all was earned (before any possible TEA enrollment and attendance audit).

Cedars International Academy had 12 days of instruction in August, 2005. Based on the estimated State Foundation Program revenue for the 2005-2006 school year as provided by the Texas Education Agency, the Academy earned \$62,480 of State Foundation Program revenue for these days of instruction. This revenue has been accrued at August 31, 2005 and will be received after September 1, 2005.

Note 13: Litigation

Cedars International Academy had been named as defendant in a lawsuit in which a parent of an Academy student claimed race discrimination by the Academy against his child. On December 21, 2004, the U.S. District Court for the Western United States, Austin Division entered an order granting summary judgment in favor of the Defendant Cedars International Academy with respect to the Plaintiff's claims and dismissing the remaining state law claims without prejudice.

Note 14: Charter Holder Operations

Cedars Academy is the Charter Holder. The Charter Holder only operated a single charter school named Cedars International Academy and did not conduct any other charter or non-charter activities.

**SPECIFIC PURPOSE
FINANCIAL STATEMENTS**

CEDARS ACADEMY
SCHEDULE OF EXPENSES

Annual Year Ended August 31, 2005

EXPENSES	TOTALS	
	2005	2004
6100 Payroll	\$ 743,527	\$ 660,240
6200 Professional and Contracted Services	156,207	130,229
6300 Supplies and Materials	95,418	54,098
6400 Other Operating Costs	39,741	37,337
6500 Debt	5,944	-
6600 Capital Outlay	-	-
Total Expenses	\$ 1,040,836	\$ 881,904

CEDARS ACADEMY
SCHEDULE OF CAPITAL ASSETS
fiscal Year Ended August 31, 2005

	OWNERSHIP INTEREST		
	LOCAL	STATE	FEDERAL
1510 Land and Improvements	\$ -	\$ -	\$ -
1520 Building Improvements	-	127,196	164,049
1531 Vehicles	-	-	-
1539 Furniture and Equipment	-	26,097	7,000
1580 Construction in Progress	-	-	-
Total Property and Equipment	\$ -	\$ 153,293	\$ 171,049

CEDARS ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND ONLY
 Fiscal Year Ended August 31, 2005

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUE AND OTHER SUPPORT				
Local Support				
5740 Other Revenue from Local	\$ 26,000	\$ 37,623	\$ 52,140	\$ 14,517
5750 Revenue from Cocurr/Enterprising	-	-	-	-
5760 Revenue from Intermed Sources	-	-	-	-
Total Local Support	26,000	37,623	52,140	14,517
State Program Revenues				
5810 Foundation School Prog Act Rev	814,381	883,782	933,741	49,959
5820 State Prog Rev Dist by the TEA	-	-	-	-
5830 State Rev from State of Texas	-	37,033	-	(37,033)
Government Agencies				
Total State Program Revenues	814,381	920,815	933,741	12,927
Federal Program Revenues				
5920 Federal Revenues Dist by the TEA	-	-	-	-
Total Federal Program Revenues	-	-	-	-
Interest and other income				
	-	-	-	-
Total Revenue and Other Support	840,381	958,438	985,882	27,444
EXPENSES AND OTHER LOSSES				
11 Instruction	491,900	597,205	568,829	28,376
12 Instructional Resources and Media	1,000	910	909	1
13 Curriculum Development & Instructional Staff Development	7,000	2,941	2,940	1
23 School Leadership	-	49,709	48,726	983
31 Guidance, Counseling & Eval Services	23,800	25,750	24,359	1,390
33 School Health Services	1,500	360	360	-
35 Food Services	-	1,939	-	1,939
41 General Administration	127,500	83,434	82,282	1,153
51 Plant Maintenance	126,600	136,042	129,303	6,739
52 Security	1,000	550	549	1
53 Data Processing	12,000	12,000	12,000	-
61 Community Service	25,000	37,795	36,161	1,634
81 Fund Raising	-	-	-	-
Total Expenses	817,300	948,636	906,418	42,217
Change in Net Assets	23,081	9,802	79,463	69,661
Net Assets (Deficiency), Beginning of Year	309,237	309,237	309,237	-
Net Assets (Deficiency), End of Year	\$ 332,318	\$ 319,039	\$ 388,700	\$ 69,661

(The accompanying notes are an integral part of this financial statement.)

**COMPLIANCE
AND
INTERNAL CONTROL**

John R. Pechacek
Certified Public Accountant

P.O. Box 549 • Bellville, Texas 77418-0549 • 979.865.3169 • Fax 979.865.9829

**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
Cedars Academy
Austin, Texas

Members of the Board of Directors:

I have audited the financial statements of Cedars Academy, (a nonprofit organization) as of and for the years ended August 31, 2005 and 2004, and have issued my report thereon dated October 18, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

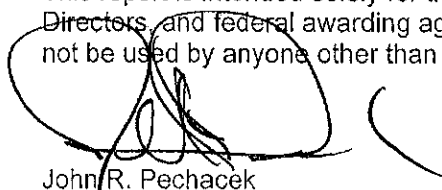
In planning and performing my audit, I considered Cedars Academy's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cedars Academy's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted a certain matter that I reported to the management of Cedars Academy in a separate letter dated October 18, 2005.

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



John R. Pechacek
October 18, 2005

CEDARS ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended August 31, 2005

I. Summary of Auditor's Results

- | | |
|---|-------------|
| 1. Type of auditor's report issued on the financial statements of the auditee | Unqualified |
| 2. Reportable conditions in internal controls disclosed by the audit of the financial statements | None |
| a. Reportable conditions 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. Auditee meets the requirements for Single Audit for Federal Awards | No |

II. Financial Statement Findings None

III. Federal Award Findings None

John R. Pechacek
Certified Public Accountant

P.O. Box 549 • Bellville, Texas 77418-0549 • 979.865.3169 • Fax 979.865.9829

October 18, 2005

Board of Directors
Cedars Academy
Austin, Texas

Management Letter

Members of the Board:

In planning and performing my audit of the financial statements of Cedars Academy for the year ended August 31, 2005, I considered the Academy's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance over internal control.

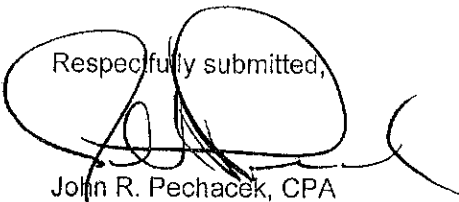
During my audit, I noted a certain matter involving the internal control and its operations that is presented for your consideration. This letter does not affect my report dated October 18, 2005, on the financial statements of Cedars Academy. My comment and recommendation, which has been discussed with appropriate members of management, is intended to improve the internal control or result in other operating efficiencies. I would be pleased to discuss this comment in further detail at your convenience, perform additional studies of this matter, or assist you in implementing the recommendation. My comment is summarized as follows:

Unsecured Cash Balance

Cedars Academy's Frost Bank bank statements on August 31, 2005, had a combined balance of \$196,368. The balance secured by the FDIC was \$100,000. The amount not secured was \$96,368. The Academy should discuss with their depository having pledged securities to cover the excess deposits when needed.

I believe the implementation of this recommendation will provide Cedars Academy with a stronger system of internal accounting control while also making its operations more efficient. This report is intended solely for the information and use of the Board of Directors, management and others within the Academy and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



John R. Pechacek, CPA
October 18, 2005