

ANNUAL FINANCIAL REPORT

of

CEDARS ACADEMY

*DBA CEDARS INTERNATIONAL
ACADEMY*

For the Years Ended
August 31, 2010 and 2009

CEDARS ACADEMY
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For the Years Ended August 31, 2010 and 2009

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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

Galveston
County

227-817
Co. Dist. Number

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, 2010, at a meeting of the governing body of the Charter Holder on the _____ day of _____, 2011.

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.



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Cedars Academy:

We have audited the accompanying statements of financial position of Cedars Academy (the "Charter Holder") dba "Cedars International Academy" (a nonprofit organization) as of and for the year ended August 31, 2010 and 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Charter Holder'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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. 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 Charter Holder as of August 31, 2010 and 2009, and the 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*, we have also issued our report dated January 10, 2011 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 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.

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FINANCIAL STATEMENTS

CEDARS ACADEMY
STATEMENT OF FINANCIAL POSITION - EXHIBIT A-1
August 31, 2010 and 2009

	2010	2009
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 254,326	\$ 215,201
Due from Texas Education Agency	103,108	73,414
Other receivables	-	10,477
Total current assets	357,434	299,092
Property and equipment, net	2,204,618	2,072,850
Total non-current assets	2,204,618	2,072,850
Total Assets	\$ 2,562,052	\$ 2,371,942
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 4,122	\$ 1,561
Current portion of long-term debt	97,733	157,965
Total current liabilities	101,855	159,526
Long-term liabilities:		
Bonds payable	1,574,862	1,628,454
Total long-term liabilities	1,574,862	1,628,454
Total Liabilities	1,676,717	1,787,980
Net Assets		
Unrestricted	607,177	578,184
Temporarily restricted	278,158	5,778
Total Net Assets	885,335	583,962
Total Liabilities and Net Assets	\$ 2,562,052	\$ 2,371,942

See Notes to Financial Statements.

CEDARS ACADEMY
STATEMENT OF ACTIVITIES - EXHIBIT A-2
For the Years Ended August 31, 2010 and 2009

	Unrestricted	Temporarily Restricted	Totals	
			2010	2009
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 18,993	\$ -	\$ 18,993	\$ 11,602
5750 Revenue from cocurricular or enterprising	10,000	14,565	24,565	29,936
Total local support	<u>28,993</u>	<u>14,565</u>	<u>43,558</u>	<u>41,538</u>
State program revenues				
5810 Foundation school program act revenues	-	1,778,715	1,778,715	1,502,782
5820 State program revenues distributed by Texas Education Agency	-	14,831	14,831	41,642
Total state program revenue	<u>-</u>	<u>1,793,546</u>	<u>1,793,546</u>	<u>1,544,424</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	305,425	305,425	188,872
Interest and other income	49	-	49	612
Net assets released from restrictions:				
Restricted satisfied by payments	1,841,156	(1,841,156)	-	-
Total Revenues	<u>1,870,198</u>	<u>272,380</u>	<u>2,142,578</u>	<u>1,775,446</u>
Expenses				
11 Instruction	1,116,268	-	1,116,268	987,056
12 Instructional resources and media services	489	-	489	484
13 Curriculum development and instructional staff development	11,981	-	11,981	9,382
21 Instructional leadership	-	-	-	-
23 School leadership	85,547	-	85,547	38,713
31 Guidance, counseling and evaluation services	35,697	-	35,697	32,079
33 Health services	299	-	299	3,037
35 Food services	128,349	-	128,349	121,419
36 Co-curricular/extracurricular activities	12,967	-	12,967	15,256
41 General administration	112,898	-	112,898	206,107
51 Plant maintenance and operations	203,173	-	203,173	181,554
52 Security and monitoring services	912	-	912	739
53 Data processing services	15,084	-	15,084	14,999
61 Community services	19,880	-	19,880	9,200
71 Debt service	97,661	-	97,661	-
Total Expenses	<u>1,841,205</u>	<u>-</u>	<u>1,841,205</u>	<u>1,620,025</u>
Change in Net Assets	28,993	272,380	301,373	155,421
Beginning Net Assets	578,184	5,778	583,962	428,541
Ending Net Assets	<u>\$ 607,177</u>	<u>\$ 278,158</u>	<u>\$ 885,335</u>	<u>\$ 583,962</u>

See Notes to Financial Statements.

CEDARS ACADEMY
STATEMENT OF CASH FLOWS - EXHIBIT A-3
For the Years Ended August 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Revenue from co-curricular or enterprising	\$ 35,042	\$ -
Foundation school program payments	1,763,852	1,485,237
Grant payments	305,425	211,179
Miscellaneous sources	19,042	42,151
Payments to vendors for goods and services rendered	(171,187)	(497,224)
Payments to charter school personnel for services rendered	(1,187,182)	(1,033,646)
Net Cash Provided in Operating Activities	764,992	207,697
Cash Flows from Investing Activities		
Payments for property and equipment	(514,382)	(131,679)
Net Cash Used in Investing Activities	(514,382)	(131,679)
Cash flows from Financing Activities		
Interest payments	(97,661)	-
Principal payments on long-term debt	(113,824)	10,090
Net Cash Provided (Used) in Financing Activities	(211,485)	10,090
Net Change in Cash and Cash Equivalents	39,125	86,108
Beginning cash and cash equivalents	215,201	129,093
Ending cash and cash equivalents	\$ 254,326	\$ 215,201
Adjustments to Reconcile to Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Change in net assets before interest and depreciation	\$ 399,034	\$ 155,420
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) in operating activities:		
Depreciation	382,614	96,168
(Increase) decrease in:		
Due from Texas Education Agency	(29,694)	(39,824)
Other receivables	10,477	(660)
Increase (decrease) in:		
Accounts payable	2,561	(3,407)
Net Cash Provided in Operating Activities	\$ 764,992	\$ 207,697

See Notes to Financial Statements.

CEDARS ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended August 31, 2010 and 2009

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 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 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 2009-2010, Cedars International Academy served grades kindergarten through seventh 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, 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 activities due to donor-imposed restrictions.

CEDARS ACADEMY
NOTES TO FINANCIAL STATEMENTS, Continued
For the Years Ended August 31, 2010 and 2009

NOTE 3 – LONG-TERM DEBT

The Charter Holder had an outstanding note payable balance of \$42,984 at August 31, 2010. On September 11, 2008, the Charter Holder entered into a loan agreement with Amegy Bank of Texas. The original loan amount was \$100,000 and the interest rate was 7.5%. The Charter Holder pays \$2,004 each month.

The Charter Holder has two bond issuances at August 31, 2010. The details of these bonds are as follows:

<u>Year Ended August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 76,216	\$ 81,790	\$ 158,006
2012	82,006	76,000	158,006
2013	86,489	71,517	158,006
2014	91,223	66,782	158,005
2015-2019	444,571	262,754	707,325
2020-2024	517,046	147,969	665,015
2025-2027	332,060	24,077	356,137
	<u>\$ 1,629,611</u>	<u>\$ 730,889</u>	<u>\$ 2,360,500</u>

NOTE 4 – 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 2010, 2009 and 2008, and a state contribution rate of 6.58 percent for fiscal years 2010 and 2009 and 6 percent for fiscal year 2008. The Charter Holder’s employees’ contributions to the System for the years ending August 31, 2010, 2009, and 2008, were \$65,167, \$56,415, and \$53,852 respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the Charter Holder for salaries above the statutory minimum for the years ending August 31, 2010, 2009, and 2008, were \$6,027, \$4,820, and \$7,415, respectively, equal to the required contributions for each year.

CEDARS ACADEMY
NOTES TO FINANCIAL STATEMENTS, Continued
For the Years Ended August 31, 2010 and 2009

The Charter Holder had 12 days of instruction. Based on the estimated State foundation program revenue for the 2009-2010 school year as provided by the TEA, the Charter Holder earned \$100,371 of State foundation program revenue for these days of instruction. This revenue has been accrued at August 31, 2010 and will be received after September 1, 2010.

NOTE 10 – SHARED SERVICE ARRANGEMENTS

The Charter Holder participates as a member in the Austin Area Special Education Cooperative which is a shared services arrangement for special education services. The fiscal agent is NYOS Charter School, Inc. The Charter Holder does account for revenues and expenditures in this program and does disclose 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.

Cedars Academy DBA Cedars International Academy participates as a member in the Austin Area Special Education Cooperative which is a shared services arrangement for special education services for IDEA B Stimulus Funding. The fiscal agent is NYOS Charter School, Inc. Cedars Academy DBA Cedars International Academy does not account for revenues and expenditures in this program and does not disclose them in these financial statements. Cedars Academy DBA Cedars International Academy received \$23,332 in services by being a member of this Cooperative.

Cedars Academy DBA Cedars International Academy participates as a member in the Austin Area 21st Century Community Learning Centers Cooperative which is a shared services arrangement for establishing or expanding community learning center services. The fiscal agent is NYOS Charter School, Inc. Cedars Academy DBA Cedars International Academy does not account for revenues and expenditures in this program and does not disclose them in these financial statements. Cedars Academy DBA Cedars International Academy received \$83,053 in services by being a member of this Cooperative.

NOTE 11 – CHARTER HOLDER OPERATIONS

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

SUPPLEMENTAL INFORMATION

CEDARS ACADEMY
SCHEDULE OF EXPENSES - EXHIBIT C-1
For the Years Ended August 31, 2010 and 2009

	Totals	
	2010	2009
Expenses		
6100 Payroll costs	\$ 1,187,182	\$ 1,028,455
6200 Professional and contracted services	261,358	225,015
6300 Supplies and materials	158,430	141,006
6400 Other operating costs	136,574	122,243
6500 Debt	97,661	103,306
Total Expenses	<u>\$ 1,841,205</u>	<u>\$ 1,620,025</u>

CEDARS ACADEMY

SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1

August 31, 2010 and 2009

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ -	\$ 1,647,856	\$ 164,799
1539 Furniture and equipment	-	26,097	7,000
1580 Construction in process	-	707,471	34,009
Total Property and Equipment	\$ -	\$ 2,381,424	\$ 205,808

CEDARS ACADEMY

BUDGETARY COMPARISON SCHEDULE - EXHIBIT E-1

GENERAL FUND

For the Year Ended August 31, 2010

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
5740 Other revenues from local sources	\$ 15,119	\$ 18,721	\$ 19,042	\$ 321
Total Local Support	15,119	18,721	19,042	321
State program revenues				
5810 Foundation school program act revenues	1,693,441	1,731,180	1,778,046	46,866
Total Revenues	1,708,560	1,749,901	1,797,088	47,187
Expenses				
11 Instruction	986,918	996,925	972,251	24,674
12 Instructional resources and media	500	500	489	11
13 Curriculum development and instructional staff development	11,500	19,274	10,856	8,418
23 School leadership	89,613	86,133	85,547	586
31 Guidance, counseling and evaluation services	34,911	25,911	25,573	338
33 Health services	300	300	299	1
41 General administration	103,834	121,101	112,898	8,203
51 Plant maintenance and operations	107,553	110,710	108,937	1,773
52 Security and monitoring services	1,000	1,300	912	388
53 Data processing services	15,000	15,085	15,084	1
61 Community services	14,719	19,883	19,880	3
71 Debt service	115,487	120,829	97,661	23,168
Total Expenses	1,481,335	1,517,951	1,450,387	67,564
Change in Net Assets	227,225	231,950	346,701	114,751
Beginning Net Assets	578,184	578,184	578,184	-
Ending Net Assets	\$ 805,409	\$ 810,134	924,885	\$ 114,751
Reconciliation to Ending Net Assets				
Change in net Assets due to activity in other funds			(39,550)	
Change in Net Assets (all funds)			307,151	
Beginning Net Assets			578,184	
Ending Net Assets			\$ 885,335	

***OVERALL COMPLIANCE, INTERNAL CONTROLS
AND FEDERAL AWARDS***



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 *GOVERNMENTAL AUDITING STANDARDS*

January 10, 2011

To the Board of Directors of
Cedars Academy;

We have audited the financial statements of Cedars Academy (the "Charter Holder") as of and for the years ended August 31, 2010 and 2009, and have issued our report thereon dated January 10, 2011. 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 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of internal control over financial reporting.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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CEDARS ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1

For the Year Ended August 31, 2010

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of audit report issued	Unqualified
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

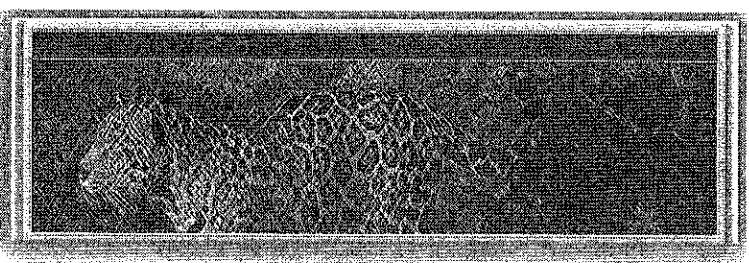
None identified.

CEDARS ACADEMY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - EXHIBIT G-1

For the Year Ended August 31, 2010

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



January 18, 2011

2009-2010 Letter of Explanation on 10% Variance

Revenue: increase was due to additional enrollment which was possible due to the construction and renovation we have been doing.

Function 13: Due to estimated increase in enrollment district amended budget to include additional funds available in professional development to prepare for training of additional staff. We were fortunate and were able to hire well trained teachers and did not use the funds as expected.

Function 31: Counselor is contracted and paid hourly and hours decreased based on student need.

Function 41: Increased budget to cover unexpected pay raise for director of charter. Board insisted based on increased scores and enrollment.

Function 52: Increased due to added buildings to monitoring system.

Function 61: Increased based on increased expenses due to increased participation by students.

Function 71: Increased to cover additional payment toward loan. Did not make additional payments decided to wait until near finals and plan for more construction and renovation in the future.