

Audit Report
**CEDARS ACADEMY
DBA
CEDARS INTERNATIONAL
ACADEMY
AUSTIN, TEXAS
FOR THE YEAR ENDED
AUGUST 31, 2006**

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

CEDARS ACADEMY
DBA
CEDARS INTERNATIONAL ACADEMY
AUSTIN, TEXAS
AUDIT FOR THE YEAR ENDED AUGUST 31, 2006

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CERTIFICATE OF BOARD

CEDARS ACADEMY
Name of Charter Holder

74-2960628
Federal Employer ID Number

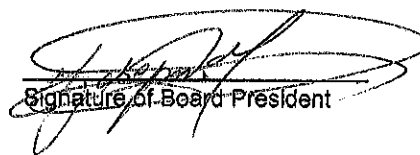
CEDARS INTERNATIONAL ACADEMY
Name of Charter School

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, 2006, at a meeting of the board of directors of such school district on the 11th day of January, 2007


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
DBA Cedars International Academy
Austin, Texas

Members of the Board of Directors:

I have audited the accompanying statements of financial position of Cedars Academy DBA Cedars International Academy (a nonprofit organization) as of August 31, 2006 and 2005, 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 audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide 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 Cedars Academy DBA Cedars International Academy as of August 31, 2006 and 2005, 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.

John R. Pechacek
October 27, 2006

**BASIC
FINANCIAL STATEMENTS**

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
STATEMENT OF FINANCIAL POSITION
Fiscal Year Ended August 31, 2006

ASSETS	<u>2006</u>	<u>2005</u>
Current Assets -		
Cash on Hand and In Banks	\$ 121,668	\$ 143,884
Due from Texas Education Agency	77,725	64,629
Total Current Assets	<u>199,393</u>	<u>208,513</u>
Fixed Assets Net of Accumulated Depreciation	251,644	269,760
Total Assets	<u><u>451,037</u></u>	<u><u>478,273</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities -		
Accounts Payable	-	9,250
Payroll Liabilities Payable	-	3,749
Accrued Salaries Payable	-	-
Due to State	127	181
Notes Payable - Current Maturities	34,083	17,848
Total Current Liabilities -	<u>34,210</u>	<u>31,028</u>
Long-Term Liabilities -		
Notes Payable	10,710	60,846
Total Long-Term Liabilities	<u>10,710</u>	<u>60,846</u>
Total Liabilities	44,920	91,873
Net Assets -		
Unrestricted (Deficiency)	400,525	239,721
Temporarily Restricted (Deficiency)	5,592	146,679
Total Net Assets	<u>406,117</u>	<u>386,400</u>
Total Liabilities and Net Assets	<u><u>\$ 451,037</u></u>	<u><u>\$ 478,273</u></u>

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

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
STATEMENT OF ACTIVITIES
Fiscal Year Ended August 31, 2006

	2006			2005
	Unrestricted	Temporarily Restricted	Totals	
REVENUE AND OTHER SUPPORT				
Local Support				
5740 Other Revenue from Local Sources	\$ 36,157	\$ -	\$ 36,157	\$ 52,140
5750 Revenue from Cocurr or Enterpr	18,901	17,700	36,601	24,982
5760 Revenue from Intermed Sources	-	-	-	-
Total Local Support	<u>55,058</u>	<u>17,700</u>	<u>72,758</u>	<u>77,122</u>
State Program Revenues				
5810 Foundation School Program	151,572	858,911	1,010,483	933,741
5820 State Matching Funds	-	556	556	462
5820 Accelerated Reading Program	-	12,983	12,983	9,764
5820 Technology Allotment	-	3,928	3,928	4,263
5830 TRS Supplemental Health Ins	-	11,644	11,644	9,500
Total State Program Revenues	<u>151,572</u>	<u>888,022</u>	<u>1,039,594</u>	<u>957,730</u>
Federal Program Revenues				
5920 ESEA Title IV, Safe and Drug Free	-	809	809	760
5920 ESEA Title I, Part A, Improve Basic	-	42,563	42,563	22,440
5920 IDEA Part B, Formula Year 6	-	21,167	21,167	-
5920 IDEA Part B, Formula Year 7	-	4,093	4,093	-
5920 Child Nutrition Program	-	56,175	56,175	45,691
5920 USDA Donated Commodities	-	4,631	4,631	2,899
5920 Title II, Part A, Teacher, Prin Training	-	7,474	7,474	6,512
5920 Title II, Part D, Enh Ed Thr Tech	-	645	645	609
5920 Title V, Part A, Innovative Programs	-	290	290	412
5920 Temporary Emergency Impact Aid	-	5,984	5,984	-
Total Federal Program Revenues	<u>-</u>	<u>143,830</u>	<u>143,830</u>	<u>79,323</u>
Interest and Other Income	-	-	-	-
Net Assets Released from Restrictions	1,190,639	(1,190,639)	-	-
Total Revenue and Other Support	<u>1,397,269</u>	<u>(141,087)</u>	<u>1,256,182</u>	<u>1,114,175</u>
EXPENSES AND OTHER LOSSES				
11 Instruction	769,328	-	769,328	620,919
12 Instructional Resources	754	-	754	909
13 Curr Development and Instr St Devel	3,605	-	3,605	2,940
21 Instructional Leadership	233	-	233	-
23 School Leadership	63,173	-	63,173	48,726
31 Guidance, Counseling, Eval Services	47,897	-	47,897	24,630
33 School Health	380	-	380	360
35 Food Services	100,606	-	100,606	81,205
36 Extracurricular/Cocurricular Act	18,609	-	18,609	352
41 Administration	65,873	-	65,873	82,782
51 Plant Maintenance	119,139	-	119,139	129,303
52 Security	682	-	682	549
53 Data Processing	13,008	-	13,008	12,000
61 Community Services	33,178	-	33,178	36,161
Total Expenses	<u>1,236,464</u>	<u>-</u>	<u>1,236,464</u>	<u>1,040,836</u>
Change in Net Assets	160,804	(141,087)	19,718	73,339
Net Assets (Deficiency), Beginning of Year	239,721	146,679	386,400	313,060
Net Assets (Deficiency), End of Year	<u>\$ 400,525</u>	<u>\$ 5,592</u>	<u>\$ 406,117</u>	<u>\$ 386,400</u>

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

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
STATEMENT OF CASH FLOWS
Fiscal Year Ended August 31, 2006

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program Payments	\$ 999,520	\$ 929,996
Grant Payments	141,045	99,092
Contributions from Fund-Raising	-	100
Miscellaneous Sources	72,758	77,022
Cash Paid to Suppliers for Goods and Services	(296,545)	(263,309)
Cash Paid to Employees for Services	(905,093)	(743,038)
Net Cash Provided by Operating Activities	<u>11,685</u>	<u>99,863</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	<u>-</u>	<u>(68,750)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (Payments on) Note Payable	-	95,000
Proceeds from (Payments on) Note Payable	<u>(33,901)</u>	<u>(16,306)</u>
Net Increase in Cash and Cash Equivalents	(22,216)	109,807
Cash and Cash Equivalents at Beginning of Year	<u>143,884</u>	<u>34,077</u>
Cash and Cash Equivalents at End of Year	<u>\$ 121,668</u>	<u>\$ 143,884</u>

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

Change in Net Assets	\$ 19,718	\$ 73,339
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	18,115	21,888
(Increase) Decrease in Net Assets-		
Due from Texas Education Agency	(13,096)	(4,462)
Prepaid Expenses	-	-
Increase (Decrease) in Operating Liabilities-		
Accounts Payable	(9,250)	9,250
Payroll Liabilities Payable	(3,749)	489
Accrued Salaries Payable	-	-
Due to State	(54)	89
Deferred Revenue	-	(730)
Net Cash Provided by Operating Activities	<u>\$ 11,685</u>	<u>\$ 99,863</u>

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

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2006

Note 1: Summary of Significant Accounting Policies

The general-purpose financial statements of Cedars Academy DBA Cedars International 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 DBA CEDARS INTERNATIONAL ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2006

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 DBA CEDARS INTERNATIONAL ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2006

Note 2: Capital Assets

As of August 31, 2006 and 2005, the Charter Holder's capital assets consisted of the following:

	<u>Cedars Academy</u>	<u>2006</u>	<u>2005</u>
Land	\$	-	\$ -
Buildings and Improvements		291,245	291,245
Furniture and Equipment		33,097	33,097
Construction in Progress		-	-
Total property and equipment		<u>324,342</u>	<u>324,342</u>
Less accumulated depreciation		<u>72,698</u>	<u>54,583</u>
Property and equipment, net	\$	<u>251,644</u>	\$ <u>269,760</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, 2006, Cedars Academy debt consisted of the following:

	<u>Cedars Academy</u>	<u>Amount</u>
Note payable to Frost Bank .	\$	44,793
The original amount of the loan was \$95,000 on August 17, 2004. The outstanding loan amount on August 31, 2006 was \$44,793. The loan has a floating interest rate.		
Less Current Portion of Long-Term Debt		34,083
Total Long-Term Debt	\$	<u>10,710</u>

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

<u>Fiscal Year</u>		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2006-2007	\$	34,083		2,904	\$	36,987
2007-2008		10,710		314		11,024
Total	\$	<u>44,793</u>	\$	<u>3,218</u>	\$	<u>48,011</u>

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2006

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, 2006 and 2005 were \$ 44,695 and \$31,711, 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 years ending August 31, 2006 and 2005 were \$3,331 and \$1,543, respectively, equal to the required contributions for each year.

Note 5: Health Care Coverage

During the year ended August 31, 2006, 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, 2006, the Charter Holder had no deferred revenue.

Note 7: Due from State

As of August 31, 2006, the Charter Holder's due from State consisted of the following:

<u>Cedars Academy</u>	<u>2006</u>
Foundation School Program Year 2006-2007	\$ 73,443
Temporary Emergency Impact Aid 2005-2006	2,984
Accelerated Reading Program Year 2005-2006	1,298
Total	\$ <u>77,725</u>

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2006

Note 8: Due to State

As of August 31, 2006, the Charter Holder's due to state consisted of the following:

	<u>Cedars Academy</u>	<u>2006</u>
TRS Supplemental Insurance Year 2005-2006	\$	<u>127</u>
Total	\$	<u>127</u>

Note 9: Temporarily Restricted Net Assets

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

	<u>Cedars Academy</u>	<u>2006</u>
Technology Allotment	\$	2,566
Campus Activity Fund		<u>3,026</u>
Total	\$	<u>5,592</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 \$5,500 from September 2005 through July 2006 and \$6,500 the subsequent month of August 2006. The property is located at 1320 East 51st Street, Austin, Texas.

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
Notes to Financial Statements
Fiscal Year Ended August 31, 2006

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, 2006, Cedars Academy was paid \$999,520 of State Foundation Program funds of which all was earned (before any possible TEA enrollment and attendance audit).

Cedars International Academy had 13 days of instruction in August, 2006. Based on the estimated State Foundation Program revenue for the 2006-2007 school year as provided by the Texas Education Agency, the Academy earned \$73,443 of State Foundation Program revenue for these days of instruction. This revenue has been accrued at August 31, 2006 and will be received after September 1, 2006.

Note 13: Shared Services Arrangement

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. The fiscal agent is NYOS Charter School, Inc. Cedars Academy DBA Cedars International Academy does account for revenues and expenditures in this program and does disclose them in these financial statements. The Academy neither has joint ownership interest in fixed assets purchased by the fiscal agent or NYOS Charter School, Inc. The Academy 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 Academy.

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.

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
SCHEDULE OF EXPENSES
Fiscal Year Ended August 31, 2006

EXPENSES	TOTALS	
	2006	2005
6100 Payroll	\$ 921,883	\$ 743,527
6200 Professional and Contracted Services	141,073	156,207
6300 Supplies and Materials	130,870	95,418
6400 Other Operating Costs	36,455	39,741
6500 Debt	6,184	5,944
Total Expenses	\$ 1,236,464	\$ 1,040,836

**SPECIFIC PURPOSE
FINANCIAL STATEMENTS**

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
SCHEDULE OF EXPENSES
Fiscal Year Ended August 31, 2006

EXPENSES	TOTALS	
	2006	2005
6100 Payroll	\$ 921,883	\$ 743,527
6200 Professional and Contracted Services	146,551	156,207
6300 Supplies and Materials	130,870	95,418
6400 Other Operating Costs	30,976	39,741
6500 Debt	6,184	5,944
Total Expenses	\$ 1,236,464	\$ 1,040,836

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
SCHEDULE OF CAPITAL ASSETS
Fiscal Year Ended August 31, 2006

	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
Total Property and Equipment	\$ -	\$ 153,293	\$ 171,049

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND ONLY
Fiscal Year Ended August 31, 2006

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUE AND OTHER SUPPORT				
Local Support				
5740 Other Revenue from Local Sources	\$ 42,539	\$ 35,451	\$ 36,157	\$ 706
5750 Revenue from Cocurr or Enterpr	-	-	-	-
5760 Revenue from Intermed Sources	-	-	-	-
Total Local Support	<u>42,539</u>	<u>35,451</u>	<u>36,157</u>	<u>706</u>
State Program Revenues				
5810 Foundation School Prog Act Rev	896,779	1,004,685	1,010,483	5,798
5820 State Revenue Dist by TEA	-	-	-	-
5830 State Rev from State of Texas	-	-	-	-
Government Agencies				
Total State Program Revenues	<u>896,779</u>	<u>1,004,685</u>	<u>1,010,483</u>	<u>5,798</u>
Federal Program Revenues				
5920 Federal Revenue Dist by TEA	-	-	-	-
Total Federal Program Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Interest and Other Income	-	-	-	-
Total Revenue and Other Support	<u>939,318</u>	<u>1,040,136</u>	<u>1,046,640</u>	<u>6,504</u>
EXPENSES AND OTHER LOSSES				
11 Instruction	566,405	671,428	664,232	7,196
12 Instructional Resources	750	750	750	0
13 Curr Development and Instr St Devel	3,000	3,542	3,542	0
23 School Leadership	53,712	62,693	62,659	34
31 Guidance, Counseling, Eval Services	37,595	25,965	25,963	2
33 School Health	800	380	380	0
35 Food Services	-	-	19,494	(19,494)
41 Administration	70,297	66,683	65,644	1,039
51 Plant Maintenance	139,341	143,094	119,063	24,031
52 Security	700	682	682	-
53 Data Processing	12,758	12,758	12,758	-
61 Community Services	36,525	32,737	32,732	5
81 Fund Raising	-	-	-	-
Total Expenses	<u>921,883</u>	<u>1,020,712</u>	<u>1,007,898</u>	<u>12,815</u>
Change in Net Assets	17,435	19,424	38,742	19,318
Net Assets (Deficiency), Beginning of Year	379,899	379,899	379,899	-
Net Assets (Deficiency), End of Year	<u>\$ 397,334</u>	<u>\$ 399,323</u>	<u>\$ 418,641</u>	<u>\$ 19,318</u>

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

**COMPLIANCE
AND
INTERNAL CONTROL**

CEDARS ACADEMY DBA CEDARS INTERNATIONAL ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended August 31, 2006

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 • Belville, 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
DBA Cedars International Academy
Austin, Texas

Members of the Board of Directors:

I have audited the financial statements of Cedars Academy DBA Cedars International Academy (a nonprofit organization) as of and for the years ended August 31, 2006 and 2005, and have issued my report thereon dated October 27, 2006. 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 DBA Cedars International 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 DBA Cedars International 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 certain matters that I reported to the management of Cedars Academy DBA Cedars International Academy in a separate letter dated October 27, 2006.

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 27, 2006

John R. Pechacek
Certified Public Accountant

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October 27, 2006

Management Letter

Board of Directors
Cedars Academy
DBA Cedars International Academy
Austin, Texas

Members of the Board of Directors:

In planning and performing my audit of the financial statements of Cedars Academy for the year ended August 31, 2006, 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 certain matters involving the internal control and its operations that is presented for your consideration. This letter does not affect my report dated October 27, 2006, 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, 2006, had a combined balance of \$176,003. The balance secured by the FDIC was \$100,000. The amount not secured was \$76,003. The Academy should discuss with their depository having pledged securities to cover the excess deposits when needed.

Unfavorable Budget Variance

Cedars Academy had an unfavorable budget variance in function 35. The Academy will need to amend the budget prior to year end. The School Board should make sufficient appropriations prior to the expenditure of Academy funds.

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 27, 2006