

ANNUAL FINANCIAL REPORT

of

ORENDA EDUCATION
DBA Orenda Charter Schools
GEORGETOWN, TEXAS

For the Year Ended
August 31, 2011

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ORENDA EDUCATION

TABLE OF CONTENTS

For the Year Ended August 31, 2011

	<u>Page</u>	<u>Exhibit</u>
Certificate of Board	1	
Independent Auditors' Report	3	
<u>General Purpose Financial Statements</u>		
Statement of Financial Position	7	A-1
Statement of Activities	9	A-2
Statement of Cash Flows	11	A-3
Notes to Financial Statements	15	
<u>Specific Purpose Financial Statements</u>		
Statement of Financial Position		
Orenda Education Foundation	25	B-1.1
Orenda Education Charter School	27	B-1.2
Statement of Activities		
Orenda Education Foundation	29	B-2.1
Orenda Education Charter School	31	B-2.2
Statement of Cash Flows		
Orenda Education Foundation	33	B-3.1
Orenda Education Charter School	35	B-3.2
<u>Supplemental Information</u>		
Schedule of Expenses	39	C-1
Schedule of Capital Assets	41	D-1
Budgetary Comparison Schedule	43	E-1
<u>Compliance and Internal Control</u>		
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	47	
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	49	
Schedule of Findings and Questioned Costs	51	F-1
Summary Schedule of Prior Year Audit Findings	53	G-1
Schedule of Expenditures of Federal Awards	55	H-1
Notes to Schedule of Expenditures of Federal Awards	57	

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ORENDA EDUCATION
CERTIFICATE OF BOARD

Orenda Education
Name of Charter Holder

Williamson
County

014-804
Co. Dist. Number

74-2774612
Federal Employer ID 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 year ended August 31, 2011, at a meeting of the governing body of the charter holder on the 24th day of January, 2012.



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
Orenda Education:

We have audited the accompanying statements of financial position of Orenda Education (the "Charter Holder") dba Orenda Charter Schools (a nonprofit organization) as of August 31, 2011, 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2011, and the changes in its net assets and its cash flows for the year 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 20, 2012, 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 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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Our audit was 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 is not a required part 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. This 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 20, 2012

FINANCIAL STATEMENTS

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ORENDA EDUCATION
STATEMENT OF FINANCIAL POSITION - EXHIBIT A-1
August 31, 2011

<u>Assets</u>	<u>2011</u>
Current assets:	
Cash and cash equivalents	\$ 379,620
Investments	1,111,630
Accounts receivable	14,581
Due from Texas Education Agency	580,067
Other assets	105,024
Total current assets	<u>2,190,922</u>
Property and equipment, net	<u>1,064,470</u>
Total Assets	\$ <u>3,255,392</u>
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable	\$ 173,628
Accrued liabilities	9,900
Payroll deductions payable	12,158
Accrued wages payable	266,546
Due to student groups	12,397
Current portion of long-term debt	18,326
Total current liabilities	<u>492,955</u>
 Long-term liabilities:	
Loan payable	<u>65,680</u>
Total long-term liabilities	<u>65,680</u>
Total Liabilities	\$ <u>558,635</u>
 Net Assets	
Unrestricted	959,135
Temporarily restricted	<u>1,737,622</u>
Total Net Assets	<u>2,696,757</u>
Total Liabilities and Net Assets	\$ <u>3,255,392</u>

See Notes to Financial Statements.

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ORENDA EDUCATION
STATEMENT OF ACTIVITIES - EXHIBIT A-2
For the Year Ended August 31, 2011

	Unrestricted	Temporarily Restricted	Totals 2011
Revenues			
Local support:			
Local revenue realized as a result of services rendered to other school districts	\$ 450	\$ -	\$ 450
Earnings from temporary deposits and investments	113,060	-	113,060
Food service activity	-	60,643	60,643
Athletic activities	2,447	-	2,447
Miscellaneous revenue from intermediate sources	87,812	-	87,812
Fundraising activities	94,349	-	94,349
Professional services	210,000	-	210,000
Total local support	<u>508,118</u>	<u>60,643</u>	<u>568,761</u>
State program revenues			
Foundation school program act revenues	-	4,578,443	4,578,443
State program revenues distributed by Texas Education Agency	-	16,104	16,104
Total state program revenue	<u>-</u>	<u>4,594,547</u>	<u>4,594,547</u>
Federal program revenues:			
Federal revenues	-	545,030	545,030
Net assets released from restrictions:			
Restricted satisfied by payments	4,939,597	(4,939,597)	-
Total Revenues	<u>5,447,715</u>	<u>260,623</u>	<u>5,708,338</u>
Expenses			
Program services			
Instruction	2,373,186	-	2,373,186
Instructional resources and media services	7,075	-	7,075
Curriculum development and instructional staff development	48,841	-	48,841
School leadership	450,376	-	450,376
Guidance, counseling and evaluation services	186,315	-	186,315
Health services	3,645	-	3,645
Student (pupil) transportation	52,791	-	52,791
Food services	162,937	-	162,937
Cocurricular/extracurricular activities	112,370	-	112,370
General administration	768,037	-	768,037
Plant maintenance and operations	607,359	-	607,359
Data processing services	166,149	-	166,149
Debt Service	516	-	516
Support services			
Advertising expenses	406	-	406
Fundraising expenses	31,540	-	31,540
General administration	15,501	-	15,501
Payroll expenses	145,708	-	145,708
Total Expenses	<u>5,132,752</u>	<u>-</u>	<u>5,132,752</u>
Change in Net Assets			
	314,963	260,623	575,586
Beginning Net Assets	644,172	1,476,999	2,121,171
Ending Net Assets	<u>\$ 959,135</u>	<u>\$ 1,737,622</u>	<u>\$ 2,696,757</u>

See Notes to Financial Statements.

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ORENDA EDUCATION
STATEMENT OF CASH FLOWS - EXHIBIT A-3
For the Year Ended August 31, 2011

	2011
Cash Flows from Operating Activities	
Revenue from cocurricular or enterprising	\$ 429,968
Professional services	210,000
Foundation school program payments	3,833,921
Grant payments	545,030
Contributions and fund-raising activities	94,349
Miscellaneous sources	148,005
Payments to vendors for goods and services rendered	(1,547,782)
Payments to charter school personnel for services rendered	(3,025,810)
Interest payment	(516)
Net Cash Provided (Used) in Operating Activities	687,165
Cash Flows from Investing Activities	
Investment earnings	55,764
Purchase of investments	(486,696)
Net Cash Provided (Used) in Investing Activities	(430,932)
Net Change in Cash and Cash Equivalents	256,233
Beginning cash and cash equivalents	123,387
Ending cash and cash equivalents	\$ 379,620
Adjustments to Reconcile to Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Change in net assets	\$ 575,586
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) in operating activities	
Depreciation	35,699
(Increase) decrease in:	
Accounts receivable	369,325
Investments	286,940
Due from Texas Education Agency	(575,718)
Due from affiliated charter school	(104,514)
Other assets	(170,178)
Increase (decrease) in:	
Accrued liabilities	(21,861)
Payroll liabilities payable	11,665
Due to affiliated charter school	117,065
Due to student groups	1,496
Long-term debt	84,006
Accrued wages payable	77,654
Net Cash Provided (Used) in Operating Activities	\$ 687,165

See Notes to Financial Statements.

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***NOTES TO
FINANCIAL STATEMENTS***

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ORENDA EDUCATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2011

Note 1: Summary of Significant Accounting Policies

The general purpose financial statements of Orenda Education (the "Charter Holder") were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Charter Holder is a not-for-profit organization incorporated in the State of Texas on August 3, 1995 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 five 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.

The Charter Holder, Orenda Education, operated a single charter school named Orenda Charter School with five campus locations.

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 2001, the State Board of Education of the State of Texas granted the organization 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 charter application Contract for Charter, Orenda Education was opened for the academic year 2002-2003. Orenda Education was organized to provide educational services to students in grades Kindergarten through 12th Grade and the organization's Board of Directors governs their programs, services, activities and functions.

Basis of Accounting and Presentation

The accompanying general purpose 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 that are 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 Holder's activities due to donor-imposed restrictions.

ORENDA EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

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.

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 four to thirty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Compensated Leave

The charter school provides paid time off to full time employees in the amount of ten days per year. Five of these days are state personal, which follow an employee if they become an employee of another school, and the remaining five days are local sick leave days. Employees are allowed to carry over and accumulate unused days; however, upon termination of employment, employees are not compensated for the unused days.

Employees of the foundation are allowed to accumulate paid time off based on length of employment service. Unused paid time off is payable to the employees, at a maximum of twenty days per employees, at the time employment is terminated. As of August 31, 2011, accumulated paid leave amounted to \$9,900.

Investments

The security investments that are bought are held principally for the purpose of selling them in the near term and are classified as trading securities. Trading securities are recorded at fair value based on quoted market prices. Unrealized appreciation or depreciation in value of investments is recognized in the statement of activities as the difference between cost and market value between periods.

ORENDA EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

Note 2 : Investments

Investments in securities held at August 31, 2011 consisted of the following:

	Fair Value	Cost
Equity & US Treasury and Agency Securities	\$ 1,111,630	\$ 1,186,739
Total	\$ 1,111,630	\$ 1,186,739

Investment income for the year ended August 31, 2011 consists of the following:

	Orenda Charter School	Orenda Education Foundation	Total
Interest/Dividends	\$ 23,164	\$ 22,858	\$ 46,022
Unrealized Gain/(Loss)	34,133	32,904	67,037
	\$ 57,297	\$ 55,762	\$ 113,059

Note 3: Capital Assets

Capital assets at year end were as follows:

	Orenda Education	
	Foundation	Education
Land	\$ 16,272	\$ -
Construction in Progress	287,402	-
Furniture and Equipment	6,135	82,154
Buildings and improvements	-	544,480
Vehicles	-	176,853
Total property and equipment	309,809	803,487
Less accumulated depreciation	(2,922)	(45,904)
Property and equipment, net	\$ 306,887	\$ 757,583

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.

ORENDA EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

Note 4: Long-Term Debt

On July 28, 2011, the Charter Holder entered into a loan agreement with A+ Federal Credit Union for a school bus. The Charter Holder received a \$85,490 loan with an effective interest rate of 4.50%, to be paid in full on August 15, 2015. The loan is to be paid out in 48 monthly payments of \$1,954.02. The depository accounts and bus have been pledged to A+ Federal Credit Union as collateral for the loan.

	Beginning Balance	Additions	Reductions	Ending Balance
Loan: A+ Federal Credit Union	\$ -	\$ 85,490	\$ 1,484	\$ 84,006
	\$ -	\$ 85,490	\$ 1,484	\$ 84,006

Future maturities of long-term debt at August 31, 2011 are as follows:

Year Ended August 31,	Principal	Interest	Total
2012	\$ 18,471	\$ 3,118	\$ 21,589
2013	20,872	2,522	23,394
2014	21,830	1,563	23,393
2015	22,833	551	23,384
	\$ 84,006	\$ 7,754	\$ 91,760

Note 5: 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, or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

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 6.0 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10 percent of the aggregate annual compensation of all members of the system; (2) A 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 6.40 percent for fiscal years 2011 and 2010, and a state contribution rate of 6.64 percent

ORENDA EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

for fiscal year 2011 and 2010. The Charter Holder employees' contributions to the system for the years ending August 31, 2011 and 2010 were \$158,287, and \$114,309 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, 2011 and 2010 were \$12,815 and, \$16,573, respectively, equal to the required contributions for each year.

Note 6: Health Care Coverage

During the year ended August 31, 2011, employees of the Charter Holder were covered by a Health Insurance Plan (the Plan). The Charter Holder 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 7: Due from State

As of August 31, 2011, the Charter Holder's due from State consisted of the following:

	Orenda Education
	2011
State Foundation Program	\$ 523,373
ESEA Title I Part A -- Improving Basic Programs	10,475
ESEA Title I Part A -- Improving Basic Programs - ARRA (Stimulus)	20,243
ESEA, Title VI, Part B, Subpart 2 - Rural and Low Income School Program	810
IDEA -- Part B, Formula & Preschool	10,271
Student Success Initiative	2,200
ESEA Title II Part A - Teacher & Principal	12,695
Total	\$ 580,067

Note 8: Temporarily Restricted Net Assets

At August 31, 2011, the Charter Holder's temporarily restricted net assets consists of the following:

	Orenda Education
	2011
Foundation School Program	\$ 1,737,622
Total	\$ 1,737,622

Note 9: 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 Texas Education Agency or the grantor agency.

ORENDA EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

Note 10: Operating Leases

The Charter Holder has multiple operating lease agreements for office equipment and instructional facilities. Lease payments paid by the Charter Holder are contingent on the foundation school funding received from TEA. Rental expenses for the year ended August 31, 2011 were \$548,587.

The Charter Holder's minimum annual lease commitments are as follows:

For the year ending August 31,	Amount
2012	\$ 425,215
2013	223,218
2014	86,210
2015	120
Total	\$ 734,763

Note 11: 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 week reporting period. At the close of the year, actual attendance is calculated by the Texas Education Agency (TEA), and the attendance reports are subject to audit by the TEA. Final State Foundation Program earnings may be adjusted as a result of any such audit. During the period ended August 31, 2011 and 2010 respectively, the Charter Holder was paid State Foundation Program funds in the amount of \$4,578,433 and \$3,288,052.

Note 12: Fair Value Measurements

Effective September 1, 2009 the Charter Holder adopted FASB ASC 820, Fair Value Measurements and Disclosures, which provides a framework for measuring fair value under generally accepted accounting principles. FASB ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in FASB ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Charter Holder uses various methods including market, income, and cost approaches. Based on these approaches, the Charter Holder often utilizes certain assumptions about risk and the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Charter Holder utilized valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in valuation techniques the Charter Holder is required to provide the following information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

ORENDA EDUCATION
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Description	Fair Value Measure at Reporting Date Using			
	8/31/2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 1,111,630	\$ 1,111,630	\$ -	\$ -
Total	\$ 1,111,630	\$ 1,111,630	\$ -	\$ -

The following methods and assumptions were used by the Charter Holder in estimating the fair value of its financial instruments:

Cash and cash equivalents. The amounts reported in the accompanying statement of financial position as cash and cash equivalents approximate fair value because of the short maturities of those instruments.

Investments. The carrying amounts reported in the accompanying statement of financial position for investments approximate fair value and are based on quoted market prices.

Accounts Receivable and Grants receivable. The carrying amounts reported in the accompanying statement of financial position approximate fair value.

Accounts payable and accrued expenses. The carrying amounts reported in the accompanying balance sheets for accounts payable and accrued expenses approximate fair value.

Note 13: Accrued Salaries

During August 2011, the Charter Holder's teachers worked 13 days for which they were not paid until September 15, 2011. Based on the daily rate of pay and the number of days worked, the Charter Holder accrued \$266,546.

Note 14: Intercompany Eliminations

As of August 31, 2011, Orenda Charter School had \$121,414 of accounts receivable from Orenda Education Foundation. The amounts of these payables (receivables) are included in the Special Purpose Statement of Financial Position (Exhibits B-1.1 and B-1.2) and are eliminated on the combined General Purpose Statement of Financial Position (Exhibit A-1).

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***SPECIFIC PURPOSE
FINANCIAL STATEMENTS***

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ORENDA EDUCATION
STATEMENT OF FINANCIAL POSITION - EXHIBIT B-1.1
Orenda Education Foundation
August 31, 2011

	2011
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 3,677
Investments	635,236
Total current assets	638,913
Property and equipment, net	306,887
Total Assets	\$ 945,800
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Accrued liabilities	\$ 9,900
Payroll deductions payable	493
Due to affiliated charter school	121,414
Total current liabilities	131,807
Total Liabilities	\$ 131,807
Net Assets	
Unrestricted	813,993
Total Liabilities and Net Assets	\$ 945,800

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ORENDA EDUCATION
STATEMENT OF FINANCIAL POSITION - EXHIBIT B-1.2
Orenda Education Charter School
August 31, 2011

	2011
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 375,943
Investments	476,394
Accounts receivable	14,581
Due from Texas Education Agency	580,067
Due from affiliated charter school	121,414
Other assets	105,024
Total current assets	1,673,423
Property and equipment, net	757,583
Total Assets	\$ 2,431,006
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable	\$ 173,628
Payroll deductions payable	11,665
Accrued wages payable	266,546
Due to student groups	12,397
Current portion of long-term debt	18,326
Total current liabilities	482,562
Long-term liabilities:	
Loan payable	65,680
Total long-term liabilities	65,680
Total Liabilities	\$ 548,242
Net Assets	
Unrestricted	145,142
Temporarily restricted	1,737,622
Total Net Assets	1,882,764
Total Liabilities and Net Assets	\$ 2,431,006

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ORENDA EDUCATION
STATEMENT OF ACTIVITIES - EXHIBIT B-2.1
Orenda Education Foundation
For the Year Ended August 31, 2011

	Unrestricted	Temporarily Restricted	Totals 2011
Revenues			
Local support:			
Fundraising activities	\$ 94,349	\$ -	\$ 94,349
Professional services	210,000	-	210,000
Interest and other income	55,764	-	55,764
Miscellaneous revenue	2,863	-	2,863
Total local support	362,976	-	362,976
Total Revenues	362,976	-	362,976
Expenses			
Advertising expenses	406	-	406
Fundraising expenses	31,540	-	31,540
General administration	15,501	-	15,501
Payroll expenses	145,708	-	145,708
Total Expenses	193,155	-	193,155
Change in Net Assets	169,821	-	169,821
Beginning Net Assets	644,172	-	644,172
Ending Net Assets	\$ 813,993	\$ -	\$ 813,993

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ORENDA EDUCATION
STATEMENT OF ACTIVITIES - EXHIBIT B-2.2
Orenda Education Charter School
For the Year Ended August 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2011</u>
Revenues			
Local support:			
5729 Local revenue realized as a result of services rendered to other school districts	\$ 450	\$ -	\$ 450
5742 Earnings from temporary deposits and investments	57,296	-	57,296
5751 Food service activity	-	60,643	60,643
5752 Athletic activities	2,447	-	2,447
5769 Miscellaneous revenue from intermediate sources	84,949	-	84,949
Total local support	<u>145,142</u>	<u>60,643</u>	<u>205,785</u>
State program revenues			
5812 Foundation school program act revenues	-	4,578,443	4,578,443
5820 State program revenues distributed by Texas Education Agency	-	16,104	16,104
Total state program revenue	<u>-</u>	<u>4,594,547</u>	<u>4,594,547</u>
Federal program revenues:			
5920 Federal revenues	-	545,030	545,030
Net assets released from restrictions:			
Restricted satisfied by payments	4,939,597	(4,939,597)	-
Total Revenues	<u>\$ 5,084,739</u>	<u>\$ 260,623</u>	<u>\$ 5,345,362</u>
Expenses			
11 Instruction	2,373,186	-	2,373,186
12 Instructional resources and media services	7,075	-	7,075
13 Curriculum development and instructional staff development	48,841	-	48,841
23 School leadership	450,376	-	450,376
31 Guidance, counseling and evaluation services	186,315	-	186,315
33 Health services	3,645	-	3,645
34 Student (pupil) transportation	52,791	-	52,791
35 Food services	162,937	-	162,937
36 Cocurricular/extracurricular activities	112,370	-	112,370
41 General administration	768,037	-	768,037
51 Plant maintenance and operations	607,359	-	607,359
53 Data processing services	166,149	-	166,149
71 Debt Service	516	-	516
Total Expenses	<u>\$ 4,939,597</u>	<u>\$ -</u>	<u>\$ 4,939,597</u>
Change in Net Assets			
Beginning Net Assets	145,142	260,623	405,765
	-	1,476,999	1,476,999
Ending Net Assets	<u>\$ 145,142</u>	<u>\$ 1,737,622</u>	<u>\$ 1,882,764</u>

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ORENDA EDUCATION
STATEMENT OF CASH FLOWS - EXHIBIT B-3.1
Orenda Education Foundation
For the Year Ended August 31, 2011

	2011
Cash Flows from Operating Activities	
Professional services	\$ 210,000
Contributions and fund-raising activities	94,349
Miscellaneous sources	2,863
Payments to vendors for goods and services rendered	(169,555)
Payments to charter school personnel for services rendered	(145,708)
Net Cash Provided (Used) in Operating Activities	(8,051)
 Cash Flows from Investing Activities	
Investment earnings	55,764
Purchase of investments	(47,388)
Net Cash Provided (Used) in Investing Activities	8,376
Net Change in Cash and Cash Equivalents	325
Beginning cash and cash equivalents	3,352
Ending cash and cash equivalents	\$ 3,677
 Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Change in net assets	\$ 169,821
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) in operating activities	
Depreciation	876
(Increase) decrease in:	
Investments	(55,763)
Other assets	(89,784)
Increase (decrease) in:	
Accrued liabilities	(150,266)
Due to affiliated charter school	117,065
Net Cash Provided (Used) in Operating Activities	\$ (8,051)

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ORENDA EDUCATION
STATEMENT OF CASH FLOWS - EXHIBIT B-3.2
Orenda Education Charter School
For the Year Ended August 31, 2011

	2011
Cash Flows from Operating Activities	
Revenue from cocurricular or enterprising	\$ 429,968
Foundation school program payments	3,833,921
Grant payments	545,030
Miscellaneous sources	145,142
Payments to vendors for goods and services rendered	(1,378,227)
Payments to charter school personnel for services rendered	(2,880,102)
Interest payments	(516)
Net Cash Provided (Used) in Operating Activities	695,216
Cash Flows from Investing Activities	
Purchase of equipment	(439,308)
Net Cash Provided (Used) in Investing Activities	(439,308)
Net Change in Cash and Cash Equivalents	255,908
Beginning cash and cash equivalents	120,035
Ending cash and cash equivalents	\$ 375,943
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Change in net assets	\$ 405,765
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) in operating activities	
Depreciation	34,823
(Increase) decrease in:	
Accounts receivable	369,325
Investments	342,703
Due from Texas Education Agency	(575,718)
Due from affiliated charter school	(104,514)
Other assets	(80,394)
Increase (decrease) in:	
Accrued liabilities	128,405
Payroll liabilities payable	11,665
Due to student groups	1,496
Long term debt	84,006
Accrued wages payable	77,654
Net Cash Provided (Used) in Operating Activities	\$ 695,216

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SUPPLEMENTAL INFORMATION

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ORENDA EDUCATION
SCHEDULE OF EXPENSES - EXHIBIT C-1
For the Year Ended August 31, 2011

		<u>Totals</u>
		<u>2011</u>
Orenda Education		
Expenses		
6100	Payroll costs	\$ 3,025,810
6200	Professional and contracted services	1,457,719
6300	Supplies and materials	429,060
6400	Other operating costs	219,647
6500	Debt	516
Total Expenses		<u><u>\$ 5,132,752</u></u>
		<u>Totals</u>
		<u>2011</u>
Orenda Education Foundation		
Expenses		
6100	Payroll costs	\$ 145,708
6400	Other operating costs	47,447
Total Expenses		<u><u>\$ 193,155</u></u>
		<u>Totals</u>
		<u>2011</u>
Orenda Education Charter School		
Expenses		
6100	Payroll costs	\$ 2,880,102
6200	Professional and contracted services	1,457,719
6300	Supplies and materials	429,060
6400	Other operating costs	172,200
6500	Debt	516
Total Expenses		<u><u>\$ 4,939,597</u></u>

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ORENDA EDUCATION
SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1
August 31, 2011

	Ownership Interest		
	Local	State	Federal
Orenda Education			
1510 Land and improvements	\$ 16,272	\$ -	\$ -
1515 Construction in progress	287,402	-	-
1520 Buildings and improvements	-	544,480	-
1531 Vehicles	-	176,853	-
1539 Furniture and equipment	6,135	82,154	-
Total Property and Equipment	\$ 309,809	\$ 803,487	\$ -

	Ownership Interest		
	Local	State	Federal
Orenda Education Foundation			
1510 Land and improvements	\$ 16,272	\$ -	\$ -
1515 Construction in progress	287,402	-	-
1539 Furniture and equipment	6,135	-	-
Total Property and Equipment	\$ 309,809	\$ -	\$ -

	Ownership Interest		
	Local	State	Federal
Orenda Education Charter School			
1520 Buildings and improvements	\$ -	\$ 544,480	\$ -
1531 Vehicles	-	176,853	-
1539 Furniture and equipment	-	82,154	-
Total Property and Equipment	\$ -	\$ 803,487	\$ -

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ORENDA EDUCATION
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS) - EXHIBIT E-1
ORENDA EDUCATION CHARTER SCHOOL - GENERAL FUND
For the Year Ended August 31, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
5740 Other Revenues from Local Sources	\$ 45,000	\$ 45,000	\$ 57,296	\$ 12,296
5750 Revenue from Cocurricular or Enterprising	130,000	130,000	148,489	18,489
Total Local Support	<u>175,000</u>	<u>175,000</u>	<u>205,785</u>	<u>30,785</u>
State program revenues				
5810 Foundation School Program Act Revenues	4,621,295	4,621,295	4,578,443	(42,852)
5820 State Program Revenues Distributed by Texas Education Agency	-	-	16,104	16,104
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	62,209	62,209	545,030	482,821
Total Revenues	<u>\$ 4,858,504</u>	<u>\$ 4,858,504</u>	<u>\$ 5,345,362</u>	<u>\$ 486,858</u>
Expenses				
11 Instruction	2,442,798	2,142,583	2,373,186	(230,603)
12 Instructional resources and media services	26,000	13,000	7,075	5,925
13 Curriculum development and instructional Staff development	77,500	62,215	48,841	13,374
23 School leadership	493,971	503,221	450,376	52,845
31 Guidance, counseling and evaluation services	141,750	196,250	186,315	9,935
33 Health services	42,000	14,000	3,645	10,355
34 Student (pupil) transportation	71,050	72,050	52,791	19,259
35 Food services	175,000	175,000	162,937	12,063
36 Cocurricular/extracurricular activities	60,000	116,000	112,370	3,630
41 General administration	641,866	775,866	768,037	7,829
51 Plant maintenance and operations	428,450	572,200	607,359	(35,159)
53 Data processing services	215,943	173,943	166,149	7,794
71 Debt service	-	-	516	(516)
Total Expenses	<u>\$ 4,816,328</u>	<u>\$ 4,816,328</u>	<u>\$ 4,939,597</u>	<u>\$ (123,269)</u>
	Change in Net Assets	42,176	405,765	363,589
Beginning Net Assets	1,476,999	1,476,999	1,476,999	-
	Ending Net Assets	<u>\$ 1,519,175</u>	<u>\$ 1,882,764</u>	<u>\$ 363,589</u>

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***COMPLIANCE, INTERNAL CONTROL,
AND FEDERAL AWARDS***

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INDEPENDENT AUDITOR'S 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*

To the Board of Directors of
Orenda Education:

We have audited the financial statements of Orenda Education, Inc. (the "Charter Holder") dba Orenda Charter Schools (a nonprofit organization), as of and for the year ended August 31, 2011, and have issued our report thereon dated January 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Charter Holder's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Holder's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder's 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 entity's 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, and the Texas Education Agency and other 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.

BELT HARRIS PECHACEK, L.L.P.

Belt Harris Pechacek, L.L.P.
Certified Public Accountants
Houston, Texas
January 20, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

To the Board of Directors of
Orenda Education:

Compliance

We have audited Orenda Education, Inc. (the "Charter Holder") dba Orenda Charter Schools (a non-profit organization) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Charter Holder's major federal programs for the year ended August 31, 2011. The Charter Holder's major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Charter Holder's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Charter Holder's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Charter Holder's compliance with those requirements.

In our opinion, the Charter Holder complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

Internal Control over Compliance

Management of the Charter Holder is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Charter Holder's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder's internal control over compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and the Texas Education Agency and other 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 20, 2012

ORENDA EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1
For the Year Ended August 31, 2011

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

Federal Awards

Internal control over major programs:

One or more material weakness(es) identified? No

One or more significant deficiency(ies) identified that are not considered to be material weaknesses? No

Type of audit report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? No

Identification of major programs:

Title I Part A Cluster 84.010 and 84.389

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? No

II. FINANCIAL STATEMENT FINDINGS

None identified.

III. FINDINGS AND QUESTIONED COSTS FOR STATE AND FEDERAL AWARDS

None identified.

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ORENDA EDUCATION

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

For the Year Ended August 31, 2011

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Capitalization of Leasehold Improvements	Corrected	

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ORENDA EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT H-1

For the Year Ended August 31, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Texas Education Agency:</i>			
ESEA Title I Part A*	84.010	11610101014804	\$ 225,280
ARRA Title XIV SFSF	84.394	11557001014804	62,209
ARRA Title II D Technology	84.386	10553001014804	950
ARRA Title I Part A*	84.389	10551001014804	140,057
Total Passed Through Texas Education Agency			<u>428,496</u>
<i>Passed Through Education Service Center, Region XII:</i>			
IDEA-B Formula*	84.027	116600011619506000	32,076
Title II Part A	84.367	11694501161950	12,695
ARRA IDEA-B - Formula*	84.391	10554001161950	18,582
Total Passed Through Education Service Center, Region XII			<u>63,353</u>
<i>Direct Award</i>			
Rural Education	84.358	S358A096428	10,953
Total U.S. Department of Education			<u>10,953</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 502,802</u></u>
Federal revenue per SEFA			\$ 502,802
Federal E-Rate Grant Revenue			42,228
A-2 Federal Revenue			<u><u>\$ 545,030</u></u>

* Indicates cluster program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

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ORENDA EDUCATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2011

NOTE 1 – STANDARD FINANCIAL ACCOUNTING SYSTEM

For all federal programs, the Charter Holder used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Charter Holder, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.