

**ORENDA EDUCATION  
dba ORENDA CHARTER SCHOOLS**

**FINANCIAL STATEMENTS**

**August 31, 2012**

**ORENDA EDUCATION**  
**dba ORENDA CHARTER SCHOOLS**  
**For the Year Ended August 31, 2012**

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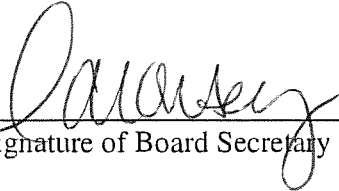
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**ORENDA EDUCATION  
dba ORENDA CHARTER SCHOOLS**

Federal Employer Identification Number: 74-2774612

Certificate of Board

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, 2012, at a meeting of the Board of Directors of such charter holder on the 14 day of January, 2013.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

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

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Orenda Education dba Orenda  
Charter Schools  
Georgetown, Texas

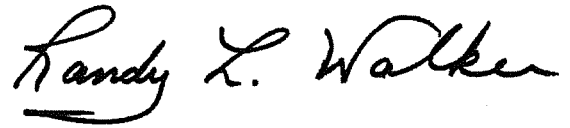
We have audited the accompanying consolidated statement of financial position of Orenda Education (the Charter Holder) dba Orenda Charter Schools (a nonprofit organization) as of August 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These financial 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 the 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, 2012, and the changes in its net assets and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2013, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Corporation's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Corporation's compliance but not to provide an opinion on the effectiveness of the Corporation's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Charter Holder taken as a whole. The supplemental information is presented for purposes of additional analysis and not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a prominent underline under the first letter of the first name.

San Antonio, Texas  
January 24, 2013

# **GENERAL-PURPOSE FINANCIAL STATEMENTS**

**ORENDA EDUCATION**  
**dba ORENDA CHARTER SCHOOLS**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**August 31, 2012**

**ASSETS**

Cash and Cash Equivalents	\$ 2,932,725
Investments	978,954
Accounts Receivable	13,823
Due from Texas Education Agency	783,474
Other Receivables	56,830
Prepaid Expenses	95,801
Sinking Fund for Bonds Payable	289,518
Bond Issuance Costs, net	1,895,100
Property and Equipment, net	7,975,365
	<u>7,975,365</u>
<b>TOTAL ASSETS</b>	<b>\$ 15,021,590</b>
	<u>\$ 15,021,590</u>

**LIABILITIES AND NET ASSETS**

Liabilities	
Accounts Payable	\$ 635,392
Accrued Expenses	304,160
Deferred Revenue	22,585
Other Liabilities	37,806
Loans Payable	113,524
Bonds Payable	10,510,000
	<u>10,510,000</u>
<b>Total Liabilities</b>	<b>11,623,467</b>
	<u>11,623,467</u>
Net Assets	
Unrestricted	1,373,539
Temporarily Restricted	2,024,584
	<u>2,024,584</u>
<b>Total Net Assets</b>	<b>3,398,123</b>
	<u>3,398,123</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 15,021,590</b>
	<u>\$ 15,021,590</u>

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

**ORENDA EDUCATION**  
**dba ORENDA CHARTER SCHOOLS**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2012**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Local Support:			
Contributions	\$ 217,798	\$ -	\$ 217,798
Miscellaneous Revenue from Intermediate Sources	140,623	-	140,623
Earnings from Temporary Deposits and Investments	92,323	-	92,323
E-Rate Revenue	-	90,324	90,324
Other Local Revenue	6,447	-	6,447
Athletic Activities	1,871	-	1,871
Food Service Activity	-	583	583
Interest Income	540	-	540
Total Local Support	<u>459,602</u>	<u>90,907</u>	<u>550,509</u>
State Program Revenues:			
Foundation School Program Act Revenues	-	7,128,706	7,128,706
State Program Revenues Distributed by Texas Education Agency	-	74,924	74,924
Total State Program Revenues	<u>-</u>	<u>7,203,630</u>	<u>7,203,630</u>
Federal Program Revenues:			
Federal Revenues Distributed by Texas Education Agency	-	464,808	464,808
Total Federal Program Revenues	<u>-</u>	<u>464,808</u>	<u>464,808</u>
Net Assets Released From Restrictions			
Restrictions Satisfied By Payments	7,472,383	(7,472,383)	-
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<u>7,931,985</u>	<u>286,962</u>	<u>8,218,947</u>
<b>EXPENSES</b>			
Program Services:			
Instruction	3,611,118	-	3,611,118
Instructional Resources and Media Services	60,982	-	60,982
Curriculum Development and Instructional			
Staff Development	50,406	-	50,406
Instructional Leadership	167,648	-	167,648
School Leadership	456,105	-	456,105
Guidance, Counseling, and Evaluation Services	193,875	-	193,875
Health Services	28,573	-	28,573
Student Transportation	99,819	-	99,819
Food Services	49,450	-	49,450
Extracurricular Activities	135,723	-	135,723
General Administration	515,241	-	515,241
Plant Maintenance and Operations	1,099,438	-	1,099,438
Data Processing	242,856	-	242,856
Debt Service	5,049	-	5,049
Support Services:			
Bond Interest	397,950	-	397,950
Professional Fees	153,678	-	153,678
Salaries and Benefits	112,020	-	112,020
Depreciation and Amortization	109,140	-	109,140
Miscellaneous Expense	28,510	-	28,510
<b>TOTAL EXPENSES</b>	<u>7,517,581</u>	<u>-</u>	<u>7,517,581</u>
<b>CHANGE IN NET ASSETS</b>	414,404	286,962	701,366
<b>NET ASSETS, Beginning of Year</b>	959,135	1,737,622	2,696,757
<b>NET ASSETS, End of Year</b>	<u>\$ 1,373,539</u>	<u>\$ 2,024,584</u>	<u>\$ 3,398,123</u>

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



**ORENDA EDUCATION**  
**dba ORENDA CHARTER SCHOOLS**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**August 31, 2012**

**CASH FLOWS FROM OPERATIONS**

Increase in Net Assets From Operations	\$ 701,366
Adjustments to Reconcile Net Excess to Net Cash	
Provided by Operations:	
Depreciation and Amortization	193,537
Investment Income	(92,322)
Decrease (Increase) in Assets:	
Accounts Receivable	758
Due from Texas Education Agency	(203,407)
Other Receivables	(56,830)
Prepaid Expenses	9,223
Increase in Liabilities:	
Accounts Payable	461,764
Accrued Expenses	15,556
Deferred Revenue	22,585
Other Liabilities	25,409
	<hr/>
Net Cash Provided By Operations	1,077,639

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sale of Investments	224,999
Purchases of Property and Equipment	(6,996,169)
	<hr/>
Net Cash Used By Investing	(6,771,170)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Borrowings on Long-Term Debt	60,091
Payments on Long-Term Debt	(30,573)
Proceeds from Issuance of Bonds	10,590,000
Payments into Sinking Fund	(289,518)
Payment of Bond Issue Costs	(2,003,364)
Payments on Bonds Payable	(80,000)
	<hr/>
Net Cash Provided By Financing	8,246,636

<b>Net Increase in Cash</b>	2,553,105
<b>Cash, Beginning of Year</b>	379,620
	<hr/>
<b>Cash, End of Year</b>	<u>\$ 2,932,725</u>

Supplemental Disclosures	
Interest	<u>\$ 402,999</u>

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

**ORENDA EDUCATION**  
**dba ORENDA EDUCATION CHARTER SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2012**

**Note 1 - Nature of Business and Significant Accounting Policies**

***Reporting Entity and Corporate Operations***

Orenda Education (the Charter Holder) dba Orenda Charter Schools is a not-for-profit organization incorporated in the State of Texas in 1995. The Charter Holder is governed by a Board 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.

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 Charter School was opened for the academic year 2002-2003. It was organized to provide educational services to students in grades Kindergarten through 12<sup>th</sup> grade, and the organization's Board of Directors governs its programs, services, activities, and functions.

As of August 31, 2012, Orenda Charter School operates at five campus locations. Since the Charter Holder receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

***Basis of Presentation***

The financial statements of the Charter Holder have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The more significant of the Charter Holder's accounting policies are described below:

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

The Charter Holder is required to report information regarding its financial position and activities according to the absence or existence and nature of donor-imposed restrictions as follows:

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

*Temporarily Restricted* - Temporarily restricted net assets are those resources, subject to donor-imposed restrictions, that will be satisfied by the actions of the Charter Holder and/or the passage of time.

**ORENDA EDUCATION**  
**dba ORENDA EDUCATION CHARTER SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2012**

**Note 1 - Nature of Business and Significant Accounting Policies (continued)**

***Basis of Presentation (continued)***

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* - Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund annual operations. As of August 31, 2012, the Charter Holder had no permanently restricted net assets.

***Grant Funds***

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require a refund of all or part of the unused amount.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make 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. Actual results could differ from those estimates.

***Income Taxes***

The Charter Holder is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

***Cash and Cash Equivalents***

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

***Investments***

The security investments that are purchased 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**  
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**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2012**

**Note 1 - Nature of Business and Significant Accounting Policies (continued)**

***Accounting Standards Codification***

In June 2009, the Financial Accounting Standards Board (the FASB) issued SFAS No. 168, “*The FASB Accounting Standards Codification (the ASC) and the Hierarchy of Generally Accepted Accounting Principles*”, collectively (the Codification). This standard replaces Statement of Financial Accounting Standards (the SFAS) No. 162, “*The Hierarchy of Generally Accepted Accounting Principles*”, and establishes only two levels of GAAP, authoritative and non-authoritative. The FASB ASC has become the source of authoritative nongovernmental GAAP, except for rules and interpretive releases of the U.S. Securities and Exchange Commission (the SEC), which are sources of authoritative Generally Accepted Account Principles (GAAP) for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The adoption of the Codification changed the Charter Holder’s references to GAAP accounting standards but did not impact its results of activities, financial position or liquidity for the year ended August 31, 2012.

The Charter Holder adopted the provisions of ASC 820, “*Fair Value Measurements and Disclosures*” (formerly SFAS 157). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, and establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The adoption of ASC 820 did not affect the Charter Holder’s financial position or results of operations. The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority.
- Level 2 valuations are based on quoted prices in markets that are not active.
- Level 3 valuations are based on inputs that are unobservable and supported by little or no market activity.

The Charter Holder has no Level 2 or Level 3 assets or liabilities.

***Subsequent Events***

The Charter Holder has evaluated subsequent events through January 24, 2013, which is the date the financial statements were available to be issued.

**ORENDA EDUCATION**  
**dba ORENDA EDUCATION CHARTER SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2012**

**Note 1 - Nature of Business and Significant Accounting Policies (continued)**

***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.

***Property and Equipment***

Property and equipment are defined 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.

**Note 2 - Investments**

Investments held at August 31, 2012 consisted of the following:

<b>Orenda Education Foundation</b>		
	<b>Fair Value</b>	<b>Cost</b>
Cash/Money Accounts	\$ 48,739	\$ 48,684
Fixed Income - CDs	49,001	46,416
Equities	281,433	256,758
Mutual Funds	312,591	323,944
Total	\$ 691,764	\$ 675,802

<b>Orenda Charter School</b>		
	<b>Fair Value</b>	<b>Cost</b>
Cash/Money Accounts	\$ 9,382	\$ 9,382
Fixed Income - CDs	51,801	50,000
Mutual Funds	226,007	225,000
Total	\$ 287,190	\$ 284,382

**ORENDA EDUCATION**  
**dba ORENDA EDUCATION CHARTER SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2012**

**Note 2 - Investments (continued)**

Investment income for the year ended August 31, 2012 consists of the following:

	<b>Orenda Education Foundation</b>	<b>Orenda Charter School</b>	<b>Total</b>
Interest/Dividends	\$ 21,699	\$ 10,987	\$ 32,686
Unrealized Gain	34,829	24,808	59,637
Total	<u>\$ 56,528</u>	<u>\$ 35,795</u>	<u>\$ 92,323</u>

**Note 3 - Property and Equipment**

Property and equipment consist of the following at August 31, 2012:

	<b>Orenda Education Foundation</b>	<b>Orenda Charter School</b>	<b>Total</b>
Land and Improvements	\$ 1,302,093	\$ -	\$ 1,302,093
Construction in Progress	5,596,078	-	5,596,078
Buildings and Improvements	-	774,672	774,672
Vehicles	-	236,944	236,944
Furniture and Equipment	6,135	193,542	199,677
	<u>6,904,306</u>	<u>1,205,158</u>	<u>8,109,464</u>
Less Accumulated Depreciation	<u>(3,798)</u>	<u>(130,301)</u>	<u>(134,099)</u>
Total Property and Equipment	<u>\$ 6,900,508</u>	<u>\$ 1,074,857</u>	<u>\$ 7,975,365</u>

Depreciation expense for the year ended August 31, 2012 was \$876 and \$84,397 for Orenda Education Foundation and Orenda Charter School, respectively.

**Note 4 - Due from State and Federal Government**

At August 31, 2012, the Charter Holder had \$783,474 in receivables due from Texas Education Agency related to various state grants and Foundation School Program revenue. All amounts receivable are due in less than one year and are deemed by management to be fully collectible; therefore, no allowance for uncollectible accounts is considered necessary.

**Note 5 - Temporarily Restricted Net Assets**

At August 31, 2012, the Charter Holder's temporarily restricted net assets consist of \$2,024,584 for the Foundation School Program.

**ORENDA EDUCATION**  
**dba ORENDA EDUCATION CHARTER SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2012**

**Note 6 - Long Term Debt**

Long-term debt of the Charter Holder consists of the following at August 31, 2012:

Loan payable to A+ Federal Credit Union, due in monthly installments of principal and interest of \$1,954.02; interest rate at 4.50%; maturing in August 2015, at which time all unpaid principal and interest is payable in full; secured by school bus. \$ 65,135

Loan payable to Bank of America, due in monthly installments of principal and interest of \$1,362.19; interest rate at 4.20%; maturing in October 2015, at which time all unpaid principal and interest is payable in full; secured by two vans. 48,389

Total Long-Term Debt \$ 113,524

Future scheduled maturities of loans payable are as follows:

For The Year Ending August 31,	
2013	\$ 35,513
2014	37,099
2015	38,203
2016	<u>2,709</u>
Total	<u>\$ 113,524</u>

**Note 7 - Bonds Payable**

The Charter Holder's obligations under bonds payable consist of Taxable Education Revenue Bonds (Series 2011Q) and Education Revenue Bonds (Series 2011A) issued through the Texas Public Finance Authority Charter School Finance Corporation, and Taxable Education Revenue Bonds (Series 2011B) issued through the Newark Cultural Education Facilities Finance Corporation. All bonds are dated December 1, 2011. The Series 2011Q and A bonds closed and funded on December 1, 2011, and the Series 2011B bonds closed and funded on December 15, 2011, with all proceeds being held by the Bank of Texas. The bonds' proceeds will be used for property acquisition and construction at the Gateway College Preparatory Campus and were underwritten by PiperJaffray & Co. The interest rates on the bonds range from 7.25% to 8%, and the terms of the bonds range from nine to thirty years. As of August 31, 2012, the outstanding balance on the bonds payable was \$10,510,000.

Issuance costs paid for these bonds at date of issuance totaled \$2,003,364. Amortization expense related to these costs during the year ended August 31, 2012 was \$108,264.

**ORENDA EDUCATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2012**

**Note 7 - Bonds Payable (continued)**

Future minimum principal payments on the bonds payable are as follows:

For the Year Ending August 31,	
2013	\$ 115,000
2014	125,000
2015	130,000
2016	140,000
2017	155,000
Thereafter	<u>9,845,000</u>
Total	<u>\$10,510,000</u>

All bonds are subject to optional bond call at any time prior to maturity.

The Charter Holder makes monthly principal payments to the sinking fund in anticipation of payments to be made to the bondholders when due. The balance of the sinking fund as of August 31, 2012 was \$289,518.

**Note 8 - Related Party Transactions**

For the year ended August 31, 2012, Orenda Charter School (the School) entered into a Memorandum of Understanding agreement with Orenda Education Foundation (the Foundation) to reimburse the Foundation each month for certain expenses incurred to sponsor the school charter and to provide governance, executive planning, and financial and management services for the School. The total amount of these expenses was \$155,000 for the year ended August 31, 2012. This transaction is eliminated in the consolidated financial statements. However, the amount is reflected as Professional Services revenue in the Statement of Activities included in the specific purpose financial statements of the Foundation.

Furthermore, for the year ended August 31, 2012, the School entered into a Memorandum of Understanding agreement with the Foundation to reimburse the Foundation for making the monthly bond payments for the Series A, B, and Q bonds. Under this agreement, the School will pay the Foundation the annual debt service payment for the bonds that were processed for the completion of phase one of the Gateway College Preparatory Campus master plan. The total amount of these payments was \$601,100 for the year ended August 31, 2012. This transaction is eliminated in the consolidated financial statements. Because the Foundation is accepting the debt service payments in lieu of facility lease payments from the School, the amount is reflected as Rent revenue in the Statement of Activities included in the specific purpose financial statements of the Foundation.



**ORENDA EDUCATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2012**

**Note 8 - Related Party Transactions (continued)**

As of August 31, 2012, there is a payable from the School to the Foundation for \$185,367, which is for bond loan payments. The intercompany payable and corresponding intercompany receivable are eliminated in the consolidated financial statements.

**Note 9 - Operating Leases**

The Charter Holder has multiple operating lease agreements for office equipment and instructional facilities. Rent expense for the year ended August 31, 2012 was \$854,933.

The following is a schedule of the operating lease obligations subsequent to August 31, 2012:

<u>Year Ending</u> <u>August 31,</u>	
2013	\$ 676,556
2014	582,930
2015	352,361
2016	2,396
2017	<u>482</u>
Total	<u>\$ 1,614,725</u>

**Note 10 - 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 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 TEA or the grantor agency.

**Note 11 - Regulated Industry**

The majority of the Charter Holder's activities and revenues are a result of contracts with Texas Education Agency (TEA). The Charter Holder's operations are concentrated in the education field. As such, the Charter Holder operates in a heavily regulated environment. The operations of the Charter Holder are subject to administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, TEA. Such administrative directives, rules, and regulations are subject to change by an act of Congress, an act of the state legislature, or an administrative change mandated by TEA. Funding may be changed or decreased as a result of the above legislative or administrative changes.

**ORENDA EDUCATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2012**

**Note 12 - Health Care Coverage**

During the year ended August 31, 2012, employees of the Charter Holder were covered by a health insurance plan. The Charter Holder contributed \$225 per employee per month 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 13 - Pension Plan Obligations**

***Plan Description***

The Charter Holder contributes to the Teacher Retirement System of Texas (TRS), 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 Holder but are the liability of the state of Texas. TRS provides service retirement, disability retirement, and death benefits to plan members and beneficiaries. TRS 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. TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River St., 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 6.64% of the Charter Holder's covered payroll. The Charter Holder employees' contributions to TRS for the year ended August 31, 2012 were \$227,731 equal to the required contributions for the year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the year ended August 31, 2012 were \$11,826, equal to the required contributions for the year.

**Note 14 - Fair Value of Financial Instruments**

The Charter Holder's financial instruments include cash and cash equivalents, accounts receivable, receivables due from Texas Education Agency, other receivables, prepaid expenses, accounts payable, accrued expenses, deferred revenue, and other liabilities. The carrying amounts reported in the consolidated statement of financial position approximate fair values because of the short maturities of those instruments.

The Charter Holder's financial instruments also include investments. The fair values of investments are based on quoted market prices for those or similar investments.

**SPECIFIC-PURPOSE FINANCIAL STATEMENTS**

**ORENDA EDUCATION FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**August 31, 2012**

**ASSETS**

Cash and Cash Equivalents	\$ 2,189,571
Investments	691,764
Due from Orenda Education Charter School	185,367
Sinking Fund for Bonds Payable	289,518
Bond Issuance Costs, net	1,895,100
Property and Equipment, net	<u>6,900,508</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 12,151,828</u></u></b>

**LIABILITIES AND NET ASSETS**

Liabilities	
Accounts Payable	\$ 584,734
Accrued Expenses	10,780
Bonds Payable	<u>10,510,000</u>
<b>Total Liabilities</b>	<b><u>11,105,514</u></b>
Net Assets	
Unrestricted	<u>1,046,314</u>
<b>Total Net Assets</b>	<b><u>1,046,314</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 12,151,828</u></u></b>

See independent auditor's report.

**ORENDA EDUCATION CHARTER SCHOOL**  
**STATEMENT OF FINANCIAL POSITION**  
**August 31, 2012**

**ASSETS**

Cash and Cash Equivalents	\$	743,154
Investments		287,190
Accounts Receivable		13,823
Due from Texas Education Agency		783,474
Other Receivables		56,830
Prepaid Expenses		95,801
Property and Equipment, net		1,074,857
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>3,055,129</b>

**LIABILITIES AND NET ASSETS**

Liabilities		
Accounts Payable	\$	50,658
Accrued Expenses		293,380
Due to Orenda Education Foundation		185,367
Deferred Revenue		22,585
Other Liabilities		37,806
Loans Payable		113,524
<b>Total Liabilities</b>		<b>703,320</b>
Net Assets		
Unrestricted		327,225
Temporarily Restricted		2,024,584
<b>Total Net Assets</b>		<b>2,351,809</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>3,055,129</b>

See independent auditor's report.

**ORENDA EDUCATION FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2012**

<b>REVENUES AND OTHER SUPPORT</b>	
Rent	\$ 601,100
Contributions	215,298
Professional Services	155,000
Investment Income	56,528
Miscellaneous Income	5,153
Interest Income	540
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<u>1,033,619</u>
<b>EXPENSES</b>	
Bond Interest	397,950
Professional Fees	153,678
Salaries and Benefits	112,020
Depreciation and Amortization	109,140
Miscellaneous Expense	28,510
<b>TOTAL EXPENSES</b>	<u>801,298</u>
<b>CHANGE IN NET ASSETS</b>	232,321
<b>NET ASSETS, Beginning of Year</b>	<u>813,993</u>
<b>NET ASSETS, End of Year</b>	<u><u>\$ 1,046,314</u></u>

See independent auditor's report.

**ORENDA EDUCATION CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER SUPPORT</b>			
Local Support:			
5729 Other Local Revenue	\$ 1,294	\$ -	\$ 1,294
5742 Earnings from Temporary Deposits and Investments	35,795	-	35,795
5744 Donations	2,500	-	2,500
5749 E-Rate Revenue	-	90,324	90,324
5751 Food Service Activity	-	583	583
5752 Athletic Activities	1,871	-	1,871
5769 Miscellaneous Revenue from Intermediate Sources	140,623	-	140,623
Total Local Support	<u>182,083</u>	<u>90,907</u>	<u>272,990</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	7,128,706	7,128,706
5820 State Program Revenues Distributed by Texas Education Agency	-	74,924	74,924
Total State Program Revenues	<u>-</u>	<u>7,203,630</u>	<u>7,203,630</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency	-	464,808	464,808
Total Federal Program Revenues	<u>-</u>	<u>464,808</u>	<u>464,808</u>
Net Assets Released From Restrictions			
Restrictions Satisfied By Payments	7,472,383	(7,472,383)	-
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<u>7,654,466</u>	<u>286,962</u>	<u>7,941,428</u>
<b>EXPENSES</b>			
11 Instruction	3,611,118	-	3,611,118
12 Instructional Resources and Media Services	60,982	-	60,982
13 Curriculum Development and Instructional Staff Development	50,406	-	50,406
21 Instructional Leadership	167,648	-	167,648
23 School Leadership	456,105	-	456,105
31 Guidance, Counseling, and Evaluation Services	193,875	-	193,875
33 Health Services	28,573	-	28,573
34 Student Transportation	99,819	-	99,819
35 Food Services	49,450	-	49,450
36 Extracurricular Activities	135,723	-	135,723
41 General Administration	670,241	-	670,241
51 Plant Maintenance and Operations	1,099,438	-	1,099,438
53 Data Processing	242,856	-	242,856
71 Debt Service	606,149	-	606,149
<b>TOTAL EXPENSES</b>	<u>7,472,383</u>	<u>-</u>	<u>7,472,383</u>
<b>CHANGE IN NET ASSETS</b>	182,083	286,962	469,045
<b>NET ASSETS, Beginning of Year</b>	<u>145,142</u>	<u>1,737,622</u>	<u>1,882,764</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 327,225</u>	<u>\$ 2,024,584</u>	<u>\$ 2,351,809</u>

See independent auditor's report.

**ORENDA EDUCATION FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**August 31, 2012**

**CASH FLOWS FROM OPERATIONS**

Increase in Net Assets From Operations	\$ 232,321
Adjustments to Reconcile Net Excess to Net Cash	
Provided by Operations:	
Depreciation and Amortization	109,140
Investment Income	(56,527)
Increase in Assets:	
Due from Orenda Education Charter School	(185,367)
Increase (Decrease) in Liabilities:	
Accounts Payable	584,734
Accrued Expenses	387
Due to Orenda Education Charter School	(121,414)
	<u>563,274</u>
Net Cash Provided By Operations	<u>563,274</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of Property and Equipment	(6,594,498)
	<u>(6,594,498)</u>
Net Cash Used By Investing	<u>(6,594,498)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from Issuance of Bonds	10,590,000
Payments into Sinking Fund	(289,518)
Payment of Bond Issue Costs	(2,003,364)
Payments on Bonds Payable	(80,000)
	<u>8,217,118</u>
Net Cash Provided By Financing	<u>8,217,118</u>

<b>Net Increase in Cash</b>	2,185,894
<b>Cash, Beginning of Year</b>	3,677
<b>Cash, End of Year</b>	<u>\$ 2,189,571</u>

Supplemental Disclosures	
Interest	<u>\$ 397,950</u>

See independent auditor's report.



**ORENDA EDUCATION CHARTER SCHOOL**  
**STATEMENT OF CASH FLOWS**  
**August 31, 2012**

**CASH FLOWS FROM OPERATIONS**

Increase in Net Assets From Operations	\$ 469,045
Adjustments to Reconcile Net Excess to Net Cash	
Provided by Operations:	
Depreciation	84,397
Investment Income	(35,795)
Decrease (Increase) in Assets:	
Accounts Receivable	758
Due from Texas Education Agency	(203,407)
Due from Orenda Education Charter School	121,414
Other Receivables	(56,830)
Prepaid Expenses	9,223
(Decrease) Increase in Liabilities:	
Accounts Payable	(122,970)
Accrued Expenses	15,169
Due to Orenda Education Foundation	185,367
Deferred Revenue	22,585
Other Liabilities	25,409
Net Cash Provided By Operations	514,365

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sale of Investments	224,999
Purchases of Property and Equipment	(401,671)
Net Cash Used By Investing	(176,672)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Borrowings on Long-Term Debt	60,091
Payments on Long-Term Debt	(30,573)
Net Cash Provided By Financing	29,518

<b>Net Increase in Cash</b>	367,211
<b>Cash, Beginning of Year</b>	375,943
<b>Cash, End of Year</b>	\$ 743,154

Supplemental Disclosures	
Interest	\$ 5,049

See independent auditor's report.

**ORENDA EDUCATION**  
**dba ORENDA CHARTER SCHOOLS**  
**SCHEDULE OF EXPENSES**  
**For the Year Ended August 31, 2012**

**Orenda Education**

**Expenses**

6100	Payroll Costs	\$ 4,067,128
6200	Professional and Contracted Services	2,125,689
6300	Supplies and Materials	505,857
6400	Other Operating Costs	307,644
6500	Debt	511,263

**Total Expenses** \$ 7,517,581

**Orenda Education Foundation**

**Expenses**

6100	Payroll Costs	\$ 112,020
6200	Professional and Contracted Services	153,678
6400	Other Operating Costs	29,386
6500	Debt	506,214

**Total Expenses** \$ 801,298

**Orenda Education Charter School**

**Expenses**

6100	Payroll Costs	\$ 3,955,108
6200	Professional and Contracted Services	1,972,011
6300	Supplies and Materials	505,857
6400	Other Operating Costs	278,258
6500	Debt	5,049

**Total Expenses** \$ 6,716,283

See independent auditor's report.

**ORENDA EDUCATION**  
**dba ORENDA CHARTER SCHOOLS**  
**SCHEDULE OF CAPITAL ASSETS**  
**August 31, 2012**

Capital assets acquired with public funds, which constitute public property pursuant to Chapter 12 of the Texas Education Code, are as follows:

<b>Orenda Education</b>	<b>Ownership Interest</b>		
	<b>Local</b>	<b>State</b>	<b>Federal</b>
1510 Land and Improvements	\$ 1,302,093	\$ -	\$ -
1515 Construction in Progress	5,596,078	-	-
1520 Buildings and Improvements	-	774,672	-
1531 Vehicles	-	236,944	-
1539 Furniture and Equipment	6,135	193,542	-
<b>Total Capital Assets</b>	<b>\$ 6,904,306</b>	<b>\$ 1,205,158</b>	<b>\$ -</b>

<b>Orenda Education Foundation</b>	<b>Ownership Interest</b>		
	<b>Local</b>	<b>State</b>	<b>Federal</b>
1510 Land and Improvements	\$ 1,302,093	\$ -	\$ -
1515 Construction in Progress	5,596,078	-	-
1539 Furniture and Equipment	6,135	-	-
<b>Total Capital Assets</b>	<b>\$ 6,904,306</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Orenda Education Charter School</b>	<b>Ownership Interest</b>		
	<b>Local</b>	<b>State</b>	<b>Federal</b>
1520 Buildings and Improvements	\$ -	\$ 774,672	\$ -
1531 Vehicles	-	236,944	-
1539 Furniture and Equipment	-	193,542	-
<b>Total Capital Assets</b>	<b>\$ -</b>	<b>\$ 1,205,158</b>	<b>\$ -</b>

See independent auditor's report.

**ORENDA EDUCATION CHARTER SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE**  
Year Ended August 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES AND OTHER SUPPORT</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ -	\$ -	\$ 129,913	\$ 129,913
5750 Revenue from Cocurricular/Enterprising	-	2,000	2,454	454
5760 Revenues from Intermediate Sources	-	153,000	140,623	(12,377)
<b>Total Local Support</b>	<u>-</u>	<u>155,000</u>	<u>272,990</u>	<u>117,990</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	6,577,077	7,093,700	7,128,706	35,006
5820 State Program Revenues Distributed by Texas Education Agency	-	-	74,924	74,924
<b>Total State Program Revenues</b>	<u>6,577,077</u>	<u>7,093,700</u>	<u>7,203,630</u>	<u>109,930</u>
Federal Program Revenues:				
5910 Federal Revenues Distributed through Agencies Other than TEA	-	215,007	-	(215,007)
5920 Federal Revenues Distributed by Texas Education Agency	318,555	320,972	464,808	143,836
<b>Total Federal Program Revenues</b>	<u>318,555</u>	<u>535,979</u>	<u>464,808</u>	<u>(71,171)</u>
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<u>6,895,632</u>	<u>7,784,679</u>	<u>7,941,428</u>	<u>156,749</u>
<b>EXPENSES</b>				
11 Instructional	3,217,801	3,493,975	3,611,118	(117,143)
12 Instructional Resources and Media Services	78,600	78,600	60,982	17,618
13 Curriculum Development and Instructional Staff Development	62,000	42,000	50,406	(8,406) (1)
21 Instructional Leadership	-	153,000	167,648	(14,648)
23 School Leadership	512,788	512,788	456,105	56,683
31 Guidance, Counseling & Evaluation Services	244,125	278,875	193,875	85,000
33 Health Services	46,750	33,750	28,573	5,177
34 Student Transportation	107,900	101,900	99,819	2,081
35 Food Services	131,000	56,000	49,450	6,550
36 Extracurricular Activities	220,000	150,000	135,723	14,277
41 General Administration	787,219	656,219	670,241	(14,022)
51 Plant Maintenance & Operations	828,550	1,048,550	1,099,438	(50,888)
53 Data Processing Services	192,500	235,000	242,856	(7,856)
71 Debt Service	-	607,100	606,149	951
<b>TOTAL EXPENSES</b>	<u>6,429,233</u>	<u>7,447,757</u>	<u>7,472,383</u>	<u>(24,626)</u>
<b>CHANGE IN NET ASSETS</b>	<u>466,399</u>	<u>336,922</u>	<u>469,045</u>	<u>132,123</u>
<b>NET ASSETS, Beginning of Year</b>	<u>1,519,175</u>	<u>1,519,175</u>	<u>1,882,764</u>	<u>363,589</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 1,985,574</u>	<u>\$ 1,856,097</u>	<u>\$ 2,351,809</u>	<u>\$ 495,712</u>

See independent auditor's report.

**ORENDA EDUCATION CHARTER SCHOOL**  
**NOTES TO BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended August 31, 2012**

**(1) There were higher expenses for staff development training because of a significant increase in staff at one campus, the addition of an elementary program at one campus, an increase in technology and learning management systems, an increase in state standard changes, and the new assessment program. In the future, budget amendments will be made accordingly to account for increased staff training expenses.**

See independent auditor's report.

## **SUPPLEMENTAL INFORMATION**

**ORENDA EDUCATION**  
**dba ORENDA CHARTER SCHOOLS**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**August 31, 2012**

	<b>Orenda Education Foundation</b>	<b>Orenda Education Charter School</b>	<b>Eliminating Entries</b>	<b>Total</b>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 2,189,571	\$ 743,154	\$ -	\$ 2,932,725
Investments	691,764	287,190	-	978,954
Accounts Receivable	-	13,823	-	13,823
Due from Texas Education Agency	-	783,474	-	783,474
Due from Orenda Education Charter School	185,367	-	(185,367)	-
Other Receivables	-	56,830	-	56,830
Prepaid Expenses	-	95,801	-	95,801
Sinking Fund for Bonds Payable	289,518	-	-	289,518
Bond Issuance Costs, net	1,895,100	-	-	1,895,100
Property and Equipment, net	6,900,508	1,074,857	-	7,975,365
<b>TOTAL ASSETS</b>	<b>\$ 12,151,828</b>	<b>\$ 3,055,129</b>	<b>\$ (185,367)</b>	<b>\$ 15,021,590</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
Liabilities				
Accounts Payable	\$ 584,734	\$ 50,658	\$ -	\$ 635,392
Accrued Expenses	10,780	293,380	-	304,160
Due to Orenda Education Foundation	-	185,367	(185,367)	-
Deferred Revenue	-	22,585	-	22,585
Other Liabilities	-	37,806	-	37,806
Loans Payable	-	113,524	-	113,524
Bonds Payable	10,510,000	-	-	10,510,000
<b>Total Liabilities</b>	<b>11,105,514</b>	<b>703,320</b>	<b>(185,367)</b>	<b>11,623,467</b>
Net Assets				
Unrestricted	1,046,314	327,225	-	1,373,539
Temporarily Restricted	-	2,024,584	-	2,024,584
<b>Total Net Assets</b>	<b>1,046,314</b>	<b>2,351,809</b>	<b>-</b>	<b>3,398,123</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 12,151,828</b>	<b>\$ 3,055,129</b>	<b>\$ (185,367)</b>	<b>\$ 15,021,590</b>

See independent auditor's report.

**ORENDA EDUCATION**  
**dba ORENDA CHARTER SCHOOLS**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2012**

	<u>Orenda Education Foundation</u>	<u>Orenda Education Charter School</u>	<u>Eliminating Entries</u>	<u>Total</u>
<b>REVENUES AND OTHER SUPPORT</b>				
Local Support:				
Contributions	\$ 215,298	\$ 2,500	\$ -	\$ 217,798
Miscellaneous Revenue from Intermediate Sources	-	140,623	-	140,623
Earnings from Temporary Deposits and Investments	56,528	35,795	-	92,323
E-Rate Revenue	-	90,324	-	90,324
Other Local Revenue	5,153	1,294	-	6,447
Athletic Activities	-	1,871	-	1,871
Food Service Activity	-	583	-	583
Interest Income	540	-	-	540
Professional Services	155,000	-	(155,000)	-
Rent	601,100	-	(601,100)	-
Total Local Support	<u>1,033,619</u>	<u>272,990</u>	<u>(756,100)</u>	<u>550,509</u>
State Program Revenues:				
Foundation School Program Act Revenues	-	7,128,706	-	7,128,706
State Program Revenues Distributed by Texas Education Agency	-	74,924	-	74,924
Total State Program Revenues	<u>-</u>	<u>7,203,630</u>	<u>-</u>	<u>7,203,630</u>
Federal Program Revenues:				
Federal Revenues Distributed by Texas Education Agency	-	464,808	-	464,808
Total Federal Program Revenues	<u>-</u>	<u>464,808</u>	<u>-</u>	<u>464,808</u>
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<u>1,033,619</u>	<u>7,941,428</u>	<u>(756,100)</u>	<u>8,218,947</u>
<b>EXPENSES</b>				
Program Services				
Instruction	-	3,611,118	-	3,611,118
Instructional Resources and Media Services	-	60,982	-	60,982
Curriculum Development and Instructional Staff Development	-	50,406	-	50,406
Instructional Leadership	-	167,648	-	167,648
School Leadership	-	456,105	-	456,105
Guidance, Counseling, and Evaluation Services	-	193,875	-	193,875
Health Services	-	28,573	-	28,573
Student Transportation	-	99,819	-	99,819
Food Services	-	49,450	-	49,450
Extracurricular Activities	-	135,723	-	135,723
General Administration	-	670,241	(155,000)	515,241
Plant Maintenance and Operations	-	1,099,438	-	1,099,438
Data Processing	-	242,856	-	242,856
Debt Service	-	606,149	(601,100)	5,049
Support Services				
Bond Interest	397,950	-	-	397,950
Professional Fees	153,678	-	-	153,678
Salaries and Benefits	112,020	-	-	112,020
Depreciation and Amortization	109,140	-	-	109,140
Miscellaneous Expense	28,510	-	-	28,510
<b>TOTAL EXPENSES</b>	<u>801,298</u>	<u>7,472,383</u>	<u>(756,100)</u>	<u>7,517,581</u>
<b>CHANGE IN NET ASSETS</b>	<u>232,321</u>	<u>469,045</u>	<u>-</u>	<u>701,366</u>
<b>NET ASSETS, Beginning of Year</b>	<u>813,993</u>	<u>1,882,764</u>	<u>-</u>	<u>2,696,757</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 1,046,314</u>	<u>\$ 2,351,809</u>	<u>\$ -</u>	<u>\$ 3,398,123</u>

See independent auditor's report.



**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  
Orenda Education dba Orenda  
Charter Schools  
Georgetown, Texas

We have audited the financial statements of Orenda Education (the Charter Holder) dba Orenda Charter Schools (a nonprofit organization) as of and for the year ended August 31, 2012, and have issued our report thereon dated January 24, 2013. 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.

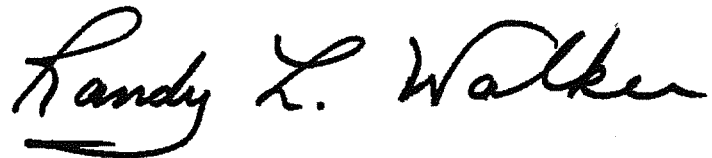
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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 management, others within the Charter Holder, the Board of Directors, the 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

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a large, stylized initial "R" and a long horizontal flourish at the end.

San Antonio, Texas  
January 24, 2013