

LA ACADEMIA DE ESTRELLAS

Financial Statements

August 31, 2012

TABLE OF CONTENTS


Certificate of Board	1
Independent Auditor's Report	3
Financial Statements:	
Statement of Financial Position	6
Statement of Activities	7
Statement of Cash Flows	9
Notes to Financial Statements	10
T. E. A. Required Schedules:	
Schedule of Expenses	18
Schedule of Capital Assets	19
Budgetary Comparison Schedule	20
Compliance and Internal Controls Section:	
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>	23
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	25
Schedule of Findings and Questioned Costs	27
Schedule of Status of Prior Findings	28
Schedule of Expenditure of Federal Awards	29

LA ACADEMIA DE ESTRELLAS (Charter Holder)
(Federal Employer Identification Number 20-0733852)

CERTIFICATE OF BOARD

We, the undersigned, certify that the attached annual Financial and Compliance Report of the above La Academia de Estrellas (Charter Holder) was reviewed and (X) approved () disapproved for the year ended August 31, 2012, at a meeting of the governing body of the charter holder on the 14 day of JANUARY, 2013.


Signature of Board Secretary


Signature of Board President
Vice President

This page left blank intentionally.

EVANS, PINGLETON and HOWARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
8950 GARY BURNS DRIVE, SUITE D
FRISCO, TEXAS 75034
972-335-9754/FAX 972-335-9758

KIRK EVANS, CPA
ROBIN J. TURNBULL, CPA
BELINDA BAI, CPA
BARBARA POLARINAKIS, CPA
KERI ROBERTON, CPA

TOM W. PINGLETON, CPA (RET.)
RANDY HOWARD, CPA (RET.)

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
La Academia de Estrellas
Dallas, Texas**

We have audited the accompanying financial statements of La Academia de Estrellas (Charter Holder) as of and for the year ended August 31, 2012. These financial statements are the responsibility of the management of La Academia de Estrellas. 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 La Academia de Estrellas as of August 31, 2012, 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 December 7, 2012, on our consideration of La Academia de Estrellas's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and 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.

Board of Directors
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. T.E.A. required schedules listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and the T.E.A. required schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Evans, Pingleton and Howard, PLLC

December 7, 2012

FINANCIAL STATEMENTS

LA ACADEMIA DE ESTRELLAS
Statement of Financial Position
As of August 31, 2012
(With Comparative Totals as of August 31, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2012</u>	<u>2011</u>
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 571,352	1,405,675	1,977,027	1,050,330
Due from State	197,424	115,932	313,356	471,679
Prepaid Expenses	71,988		71,988	39,562
Other Receivables	617		617	
Total Current Assets	<u>841,381</u>	<u>1,521,607</u>	<u>2,362,988</u>	<u>1,561,571</u>
Capital Assets, Net	<u>1,515,951</u>		<u>1,515,951</u>	<u>1,282,962</u>
Total Assets	<u>\$ 2,357,332</u>	<u>1,521,607</u>	<u>3,878,939</u>	<u>2,844,533</u>
 LIABILITIES & NET ASSETS				
Current Liabilities:				
Accounts Payable	\$ 97,204		97,204	63,234
Accrued Liabilities	320,755	20,590	341,345	287,193
Student Activity Accounts	1,525		1,525	95
Current Portion of Long-Term Debt	91,830		91,830	86,954
Total Current Liabilities	<u>511,314</u>	<u>20,590</u>	<u>531,904</u>	<u>437,476</u>
Long-Term Liabilities:				
Long-Term Portion of Note Payable	<u>683,369</u>		<u>683,369</u>	<u>775,213</u>
Total Long Term Liabilities	<u>683,369</u>		<u>683,369</u>	<u>775,213</u>
Total Liabilities	<u>1,194,683</u>	<u>20,590</u>	<u>1,215,273</u>	<u>1,212,689</u>
Net Assets:				
Unrestricted	1,162,649		1,162,649	1,030,636
Temporarily Restricted		<u>1,501,017</u>	<u>1,501,017</u>	<u>601,208</u>
Total Net Assets	<u>1,162,649</u>	<u>1,501,017</u>	<u>2,663,666</u>	<u>1,631,844</u>
Total Liabilities & Net Assets	<u>\$ 2,357,332</u>	<u>1,521,607</u>	<u>3,878,939</u>	<u>2,844,533</u>

The notes to the financial statements are an integral part of this statement.

LA ACADEMIA DE ESTRELLAS
Statement of Activities
For the Year Ended August 31, 2012
(With Comparative Totals for the Year Ended August 31, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
REVENUES				
Local Support:				
Contributions	\$ 3,125		3,125	2,260
Cocurricular Activities	28,659		28,659	28,474
Other Income	<u>21,662</u>		<u>21,662</u>	<u>6,879</u>
Total Local Support	<u>53,446</u>		<u>53,446</u>	<u>37,613</u>
State Program Revenues:				
Foundation School Program		5,242,800	5,242,800	4,179,511
Other State Aid	<u>77,155</u>		<u>77,155</u>	<u>36,415</u>
Total State Program Revenues	<u>77,155</u>	<u>5,242,800</u>	<u>5,319,955</u>	<u>4,215,926</u>
(5920) Federal Program Revenues:				
Education Jobs Fund		91,315	91,315	7,968
ESEA, Title I, Part A, ARRA				23,487
ESEA, Title I, Part A, IBP		212,840	212,840	198,028
ESEA Title II, Part A		15,095	15,095	37,768
ESEA Title IV, Part A			-	175
ESEA Title III, Part A		40,987	40,987	24,559
IDEA, Part B, Formula		113,704	113,704	67,133
IDEA Part B Preschool		1,508	1,508	1,680
IDEA Part B Preschool - ARRA			-	1,881
IDEA, Part B, Formula, ARRA		1,672	1,672	26,859
National School Lunch/Breakfast Program		360,630	360,630	288,538
Title II, Part D				1,758
Tite II, Part D - ARRA				5,521
Title XIV, SFSF, ARRA				82,638
Summer School LEP				<u>2,149</u>
Total Federal Program Revenues		<u>837,751</u>	<u>837,751</u>	<u>770,142</u>
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payments	<u>5,180,742</u>	<u>(5,180,742)</u>		
Total Revenues	<u>\$ 5,311,343</u>	<u>899,809</u>	<u>6,211,152</u>	<u>5,023,681</u>

-continued-

LA ACADEMIA DE ESTRELLAS
Statement of Activities
For the Year Ended August 31, 2012
(With Comparative Totals for the Year Ended August 31, 2011)
continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
EXPENSES				
Program Services:				
11 Instruction	\$ 3,090,849		3,090,849	2,672,551
12 Instruction Resources & Media Services	84,601		84,601	70,821
13 Curriculum Development & Instructional Staff Development	152,098		152,098	164,649
21 Instructional Leadership	5,797		5,797	57,580
23 School Leadership	413,034		413,034	350,686
31 Guidance, Counseling & Evaluation Services	100,553		100,553	111,219
33 Health Services	36,666		36,666	34,651
35 Food Services	357,363		357,363	269,700
36 Extra Curricular Activities	62,322		62,322	33,248
Total Program Services	<u>4,303,283</u>		<u>4,303,283</u>	<u>3,765,105</u>
Support Services:				
41 General Administration	184,923		184,923	157,477
51 Facilities Maintenance and Operations	617,687		617,687	555,059
52 Security & Monitoring Service	8,719		8,719	10,188
53 Data Processing	2,060		2,060	616
61 Community Services	19,097		19,097	16,509
71 Debt Service	43,561		43,561	34,620
81 Fundraising				1,500
Total Support Services	<u>876,047</u>		<u>876,047</u>	<u>775,969</u>
Total Expenses	<u>5,179,330</u>		<u>5,179,330</u>	<u>4,541,074</u>
Change in Net Assets	132,013	899,809	1,031,822	482,607
Net Assets at Beginning of Year	<u>1,030,636</u>	<u>601,208</u>	<u>1,631,844</u>	<u>1,149,237</u>
Net Assets at End of Year	<u>\$ 1,162,649</u>	<u>1,501,017</u>	<u>2,663,666</u>	<u>1,631,844</u>

The notes to the financial statements are an integral part of this statement.

LA ACADEMIA DE ESTRELLAS
Statement of Cash Flows
For the Year Ended August 31, 2012
(With Comparative Totals for the Year Ended August 31, 2011)

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Foundation School Program Payments	\$ 5,272,540	4,198,763
Other State Aid	77,155	29,222
Federal Program Revenues	966,622	521,908
Other Income	52,902	7,681
Payments to Vendors	(1,504,446)	(1,507,370)
Payments to Employees	(3,568,588)	(2,897,922)
Interest Payments	(34,621)	(43,561)
Net Cash Provided by Operating Activities	<u>1,261,564</u>	<u>308,721</u>
Cash Flows from Investing Activities:		
Purchase of Capital Assets	(249,329)	(406,800)
Net Cash Provided by Financing Activities	<u>(249,329)</u>	<u>(406,800)</u>
Cash Flows from Financing Activities:		
Proceeds from Long-Term Debt		260,000
Payment on Long-Term Debt	(86,968)	(52,667)
Funds Held for Student Groups	1,430	95
Net Cash Provided by Financing Activities	<u>(85,538)</u>	<u>207,428</u>
Net Increase/Decrease in Cash	926,697	109,349
Cash at Beginning of Year	<u>1,050,330</u>	<u>940,981</u>
Cash at End of Year	<u><u>\$ 1,977,027</u></u>	<u><u>1,050,330</u></u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in Net Assets	\$ 1,031,822	482,607
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	16,341	15,432
(Increase)/Decrease in Assets:		
Due from State	158,323	(236,175)
Prepaid Expenses	(32,426)	(21,187)
Other Receivables	(617)	
Increase/(Decrease) in Liabilities:		
Accounts Payable	33,970	5,795
Accrued Liabilities	54,151	62,249
Net Cash Provided by Operating Activities	<u><u>\$ 1,261,564</u></u>	<u><u>308,721</u></u>

The notes to the financial statements are an integral part of this statement.

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2012

(A) **BACKGROUND**

La Academia de Estrellas (Charter Holder) is a non-profit Texas corporation formed in 2003. The Charter Holder was granted a charter in 2005 and began school operations in 2006. The Charter Holder operated a single charter school and did not conduct any other charter or non-charter activities. The School was established to provide innovative learning opportunities for students, by honoring diverse cultures, languages, backgrounds and academic abilities. The School accepts students in grades pre-kindergarten through seventh and is located at 111 S. Beckley Avenue in the North Oak Cliff section of Dallas, Texas.

(B) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the School conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant policies.

1. **Basis of Accounting**

The financial statements of the School were prepared using the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Encumbrances representing outstanding purchase orders and other commitments for materials or services not yet received are not liabilities as of the reporting date.

2. **Basis of Presentation**

In order to comply with accounting principles generally accepted in the United States of America, the School must prepare its external financial statements in accordance with statements issued by the Financial Accounting Standard Board as described in the AICPA Audit and Accounting Guide for not for profit organizations.

The Audit Guide requires classification of the School's net assets and its revenues, expenses, gains, and losses based on the existence or absences of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

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

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

Permanently restricted - net assets required to be maintained in perpetuity with only the income to be used for the charter school's activities due to donor-imposed restrictions. The School has no permanently restricted funds.

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2012
-continued-

(B) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and equivalents include cash on hand and short term investments with original maturities of three months or less.

5. Income Tax Status

The School is exempt from federal income taxes under Section 501(c)3 of the Internal Revenue Code.

6. Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted assets.

7. Donated Services and Property

During the year ended August 31, 2012, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. However, a substantial number of individuals have donated significant amounts of their time in La Academia de Estrellas' programs and supporting services. Donations of property and equipment are recorded at the estimated fair value as of the date the contribution is received.

8. Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are defined by the School as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2012
-continued-

(B) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Capital Assets (continued)

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.

9. Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the period ended August 31, 2011, from which the summarized information was derived.

(C) TEMPORARILY RESTRICTED ASSETS

The School reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The School reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the School reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

State Funded Educational Programs	\$ 4,342,991
Federally Funded Educational Programs	<u>837,751</u>
Total	<u>\$ 5,180,742</u>

Temporarily restricted assets, as of August 31, 2012, consisted of the following:

State funded educational programs	\$ <u>1,501,017</u>
Total	<u>\$ 1,501,017</u>

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2012
-continued-

(D) DUE FROM STATE

Amounts due from State consists of:

	2012
Revenue accrued for students starting prior to August 31, 2012	\$ 184,439
National School Lunch/Breakfast Program	12,985
Federal grant revenue earned	115,932
Total	\$ 313,356

(E) CAPITAL ASSETS

Capital assets are stated at cost or, if donated, at fair value on the date received. Assets with a cost of \$5,000 or more and a life expectancy of greater than three years are capitalized. Capital assets acquired with public funds constitute public property pursuant to Chapter 12 of the Texas Education Code.

A summary of changes in capital assets follows:

	Beginning Balance	Additions	Disposals and Transfers	Ending Balance	Accumulated Depreciation	Net Capital Assets
Land	\$ 684,880			684,880	-	684,880
Building & Improvements	617,261	239,929		857,190	35,519	821,671
Vehicles		9,400		9,400		9,400
Total	\$ 1,302,141	249,329	-	1,551,470	35,519	1,515,951

Assets are depreciated on the straight-line basis as follows:

Building and improvements	15 - 40 years
Vehicles	7 years

For the period ended August 31, 2012, \$16,341 was charged to depreciation expense.

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2012
-continued-

(F) LONG-TERM DEBT

A summary of changes in long-term debt follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bank of America Note	\$ 602,167		(55,456)	546,711	58,566
Compass Bank Note	260,000		(31,512)	228,488	33,264
	<u>\$ 862,167</u>		<u>(86,968)</u>	<u>775,199</u>	<u>91,830</u>

Interest expense was \$43,561 and \$34,621 for fiscal years ended 2012 and 2011, respectively.

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

Note payable to Bank of America, 5.25 percent interest, principal and interest due monthly in installments of \$7,188. The final payment is due in May, 2020. The note is secured by a first lien on the land and building of the School.

<u>Fiscal Year End</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
08/31/13	\$ 58,566	27,688	86,254
08/31/14	61,761	24,493	86,254
08/31/15	65,131	21,123	86,254
08/31/16	68,633	17,621	86,254
08/31/17	72,427	13,827	86,254
08/31/18	76,377	9,877	86,254
08/31/19	80,543	5,711	86,254
08/31/20	<u>63,273</u>	<u>1,417</u>	<u>64,690</u>
	<u>\$ 546,711</u>	<u>121,757</u>	<u>668,468</u>

Note payable to Compass Bank, 5.25 percent interest, principal and interest due monthly in installments of \$3,715. The final payment is due in August, 2018. The note is secured by a first lien on the Kiest property.

<u>Fiscal Year End</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
08/31/13	\$ 33,264	11,318	44,582
08/31/14	35,021	9,561	44,582
08/31/15	36,934	7,648	44,582
08/31/16	38,951	5,631	44,582
08/31/17	41,078	3,504	44,582
08/31/18	<u>43,240</u>	<u>1,340</u>	<u>44,580</u>
	<u>\$ 228,488</u>	<u>39,002</u>	<u>267,490</u>

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2012
-continued-

(G) PENSION PLAN OBLIGATION

Plan Description - The School contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the School, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698, or by calling 1-800-223-8778, or by downloading from the system website www.trs.state.tx.us.

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% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% 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 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2012 and 2011, and a state contribution rate of 6.0% and 6.644% for fiscal years 2012 and 2011, respectively. The charter school's employees' contributions to the System for the years ending August 31, 2012 and 2011 were \$204,375 and \$179,177, respectively, equal to the required contributions for each year.

(H) COMMITMENTS and CONTINGENCIES

The School 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 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 School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

(I) HEALTH CARE COVERAGE

During the year ended August 31, 2012, employees of the School were covered by a Health Insurance Plan. The School provides \$300 per month per employee for employee insurance or as a contribution to a flexible spending account. Employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2012
-continued-

(J) LEASE

The School has a one year lease agreement, starting August 1, 2012, with Cliff Temple Baptist Church. The monthly lease payment is \$29,750, which includes utilities.

The School also has a two year lease with Oak Cliff United Methodist Church. The lease is from August 1, 2012 to July 31, 2014. This lease payment is \$10,833 per month and, in addition, the School pays a pro-rate share of utilities.

(K) EVALUATION OF SUBSEQUENT EVENTS

The School has evaluated subsequent events through December 7, 2012, the date which the financial statements were available to be issued.

T. E. A. REQUIRED SCHEDULES

LA ACADEMIA DE ESTRELLAS
Schedule of Expenses
For the Years Ended August 31, 2012 and 2011

EXPENSES	<u>2012</u>	<u>2011</u>
6100 Payroll Costs	\$ 3,619,280	3,323,448
6200 Professional and Contracted Services	613,596	553,048
6300 Supplies and Materials	769,401	524,172
6400 Other Operating Costs	133,492	105,785
6500 Debt Service	<u>43,561</u>	<u>34,621</u>
 Total Expenses	 <u>\$ 5,179,330</u>	 <u>4,541,074</u>

LA ACADEMIA DE ESTRELLAS
Schedule of Capital Assets
As of August 31, 2012

<u>Description</u>	<u>Ownership Interest</u>		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
1110 Cash	\$ 571,352	1,405,675	
1510 Land		684,880	
1520 Buildings and Improvements		821,671	
1531 Vehicles		9,400	
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 571,352</u>	<u>2,921,626</u>	<u></u>

LA ACADEMIA DE ESTRELLAS
Budgetary Comparison Schedule
For the Year Ended August 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE & OTHER SUPPORT:				
Local Support:				
5740 Other Revenues from Local Sources	\$ 4,600	11,300	24,787	13,487
5750 Cocurricular Activities	26,174	30,752	28,659	(2,093)
Total Local Support	<u>30,774</u>	<u>42,052</u>	<u>53,446</u>	<u>11,394</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	4,801,270	5,242,588	5,242,800	212
5820 State Program Revenue Distributed by the Texas Education Agency	1,000	68,388	77,155	8,767
Total State Program Revenues	<u>4,802,270</u>	<u>5,310,976</u>	<u>5,319,955</u>	<u>8,979</u>
Federal Program Revenues:				
5920 Federal Revenue Distributed by Texas Education Agency	866,804	945,278	837,751	(107,527)
Total Federal Program Revenues	<u>866,804</u>	<u>945,278</u>	<u>837,751</u>	<u>(107,527)</u>
Total Revenues	<u>5,699,848</u>	<u>6,298,306</u>	<u>6,211,152</u>	<u>(87,154)</u>
EXPENSES:				
Program Services:				
11 Instruction	3,147,405	3,281,584	3,090,849	190,735
12 Instructional Resources & Media Services	73,993	99,993	84,601	15,392
13 Curriculum Development & Instructional Staff Development	164,461	167,371	152,098	15,273
21 Instructional Leadership	-	-	5,797	(5,797)
23 School Leadership	396,811	429,626	413,034	16,592
31 Guidance, Counseling & Evaluation Services	111,118	107,618	100,553	7,065
33 Health Services	34,000	40,000	36,666	3,334
35 Food Services	315,387	368,701	357,363	11,338
36 Extracurricular Activities	35,766	67,316	62,322	4,994
Total Program Services	<u>4,278,941</u>	<u>4,562,209</u>	<u>4,303,283</u>	<u>258,926</u>
Support Services:				
41 General Administration	165,175	198,497	184,923	13,574
51 Facilities Maintenance & Operations	626,187	681,787	617,687	64,100
52 Security & Monitoring Services	10,800	10,800	8,719	2,081
53 Data Processing	4,361	4,361	2,060	2,301
61 Community Services	12,059	14,159	19,097	(4,938)
71 Debt Service	256,029	264,960	43,561	221,399
Total Support Services	<u>1,074,611</u>	<u>1,174,564</u>	<u>876,047</u>	<u>298,517</u>
Total Expenses	<u>5,353,552</u>	<u>5,736,773</u>	<u>5,179,330</u>	<u>557,443</u>
Change in Net Assets	346,296	561,533	1,031,822	470,289
Net Assets, Beginning	1,631,844	1,631,844	1,631,844	-
Net Assets, Ending	<u>\$ 1,978,140</u>	<u>2,193,377</u>	<u>2,663,666</u>	<u>470,289</u>

COMPLIANCE AND INTERNAL CONTROLS SECTION

This page left blank intentionally.

EVANS, PINGLETON and HOWARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
8950 GARY BURNS DRIVE, SUITE D
FRISCO, TEXAS 75034
972-335-9754/FAX 972-335-9758

KIRK EVANS, CPA
ROBIN J. TURNBULL, CPA
BELINDA BAI, CPA
BARBARA POLARINAKIS, CPA
KERI ROBERTON, CPA

TOM W. PINGLETON, CPA (RET.)
RANDY HOWARD, CPA (RET.)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND ON OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
La Academia de Estrellas (Charter Holder)
Dallas, Texas

We have audited the basic financial statements of La Academia de Estrellas (Charter Holder) as of and for the year ended August 31, 2012, and have issued our report thereon dated December 7, 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 La Academia de Estrellas'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 La Academia de Estrellas's internal control over financial reporting.

A deficiency in 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Academia de Estrellas' 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management, others within the entity, 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.

Evans, Pingleton and Howard, PLLC

December 7, 2012

EVANS, PINGLETON and HOWARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
8950 GARY BURNS DRIVE, SUITE D
FRISCO, TEXAS 75034
972-335-9754/FAX 972-335-9758

KIRK EVANS, CPA
ROBIN J. TURNBULL, CPA
BELINDA BAI, CPA
BARBARA POLARINAKIS, CPA
KERI ROBERTON, CPA

TOM W. PINGLETON, CPA (RET.)
RANDY HOWARD, CPA (RET.)

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Board of Directors
La Academia de Estrellas (Charter Holder)
Dallas, Texas

Compliance

We have audited the compliance of the La Academia de Estrellas with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2012. La Academia de Estrellas's major federal programs are identified in the summary of auditor's 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 La Academia de Estrellas's management. Our responsibility is to express an opinion on La Academia de Estrellas's 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 La Academia de Estrellas'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 La Academia de Estrellas's compliance with those requirements.

In our opinion La Academia de Estrellas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2012.

Internal Control Over Compliance

The management of La Academia de Estrellas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered La Academia de Estrellas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of La Academia de Estrellas' internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 for the information and use of the Board of Directors, management, others within the entity, 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.

Evans, Pingleton and Howard, PLLC

December 7, 2012

LA ACADEMIA DE ESTRELLAS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2012

I. Summary of Auditor's Results

- | | |
|--|-------------|
| 1. Type of auditor's report issued on the financial statements of the auditee | Unqualified |
| 2. Significant deficiencies in internal controls disclosed by the audit of the financial statements | None |
| a. Significant deficiencies that were material weaknesses | None |
| 3. Noncompliance material to the financial statements of the auditee disclosed by the audit of the financial statements | None |
| 4. Significant deficiencies in internal controls over major programs disclosed by the audit of the financial statements | None |
| a. Significant deficiencies that were material weaknesses | None |
| 5. Type of auditor's report issued on compliance for major programs | Unqualified |
| 6. Findings disclosed by the audit of the financial statements which the auditor is required to report | None |
| 7. Major Programs: (as tested)
ESEA Title I, Part A, IBP (CFDA 84.010A)
National School Lunch Program (CFDA 10.555)
National School Breakfast Program (CFDA 10.553) | |
| 8. The dollar threshold used to distinguish between Type A and Type B programs | \$ 300,000 |
| 9. Auditee qualified as a low- risk auditee | Yes |

II. Findings relating to the financial statements which are required to be reported in accordance with generally accepted government auditing standards

None identified.

III. Findings and questioned costs for state and federal awards

None identified.

LA ACADEMIA DE ESTRELLAS
Schedule of Status of Prior Findings
For the Year Ended August 31, 2012

<u>Program</u>	<u>Status of Prior Year's Finding/ Noncompliance</u>
----------------	--

- NONE -

LA ACADEMIA DE ESTRELLAS
Schedule of Expenditure of Federal Awards
For the Year Ended August 31, 2012

Grantor/Program Title	Federal CFDA <u>Number</u>	Pass Through Entity Identification <u>Number</u>	Federal <u>Expenditures</u>
<u>United States Department of Education</u>			
<u>Passed Through Region X ESC:</u>			
ESEA, Title II, Part A, Discr.	84.367A	11694501057839	\$ 15,095
ESEA, Title III, Part A, LEP	84.365A	11671001057839	<u>40,987</u>
Total Passed Through Region X ESC			<u>56,082</u>
<u>Passed Through State Department of Education:</u>			
ESEA, Title I, Part A, IBP	84.010A	11610101057839	212,840
IDEA, Part B, Formula	84.027A	116600010578396600	113,704
IDEA, Part B, Formula, ARRA	84.391A	10554001057839	1,672
IDEA, Part B, Preschool	84.173A	116610010578396610	1,508
Education Jobs Fund	84.410A	11550101057839	<u>91,315</u>
Total Passed Through State Department of Education			<u>421,039</u>
Total United States Department of Education			<u>477,121</u>
<u>United States Department of Agriculture</u>			
<u>Passed Through State Department of Agriculture:</u>			
National School Lunch	10.555	71301201	242,570
School Breakfast Program	10.553	71401201	112,292
Donated commodities	10.550	N/A	<u>5,768</u>
Total Passed Through State Department of Agriculture			<u>360,630</u>
Total United States Department of Agriculture			<u>360,630</u>
Total Expenditures of Federal Awards			\$ <u>837,751</u>

LA ACADEMIA DE ESTRELLAS
Notes to Schedule of Expenditures of Federal Awards
For Year Ended August 31, 2012

Note 1: Standard financial Accounting System

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