

LA ACADEMIA DE ESTRELLAS

Financial Statements

August 31, 2016

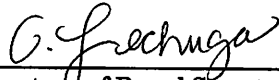
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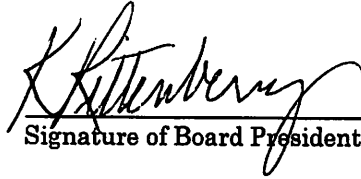
**LA ACADEMIA DE ESTRELLAS (Charter Holder)
(Federal Employer Identification Number 20-0733852)**

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 () approved () disapproved for the year ended August 31, 2016, at a meeting of the governing body of the charter holder on the 7th day of January, 2017.



Signature of Board Secretary



Signature of Board President

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
La Academia de Estrellas
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of La Academia de Estrellas (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the Supplementary Information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2016, on our consideration of La Academia de Estrellas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering La Academia de Estrellas' internal control over financial reporting and compliance.

Evans, Pingleton and Howard, PLLC

Evans, Pingleton and Howard, PLLC
January 5, 2017

FINANCIAL STATEMENTS

LA ACADEMIA DE ESTRELLAS
Statement of Financial Position
As of August 31, 2016
(With Comparative Totals as of August 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
ASSETS				
Current Assets:				
Cash & Cash Equivalents	\$ 1,542,492	3,582,080	5,124,572	4,099,259
Due from State	-	640,659	640,659	585,728
Other Receivables	8,798	-	8,798	-
Prepaid Expenses	42,686	-	42,686	43,645
Total Current Assets	<u>1,593,976</u>	<u>4,222,739</u>	<u>5,816,715</u>	<u>4,728,632</u>
Capital Assets, Net	-	12,952,772	12,952,772	13,276,493
Total Assets	<u>\$ 1,593,976</u>	<u>17,175,511</u>	<u>18,769,487</u>	<u>18,005,125</u>
LIABILITIES & NET ASSETS				
Current Liabilities:				
Accounts Payable	\$ 140,648	-	140,648	78,791
Accrued Liabilities	-	497,080	497,080	376,412
Student Activity Accounts	6,991	-	6,991	11,509
Current Portion of Long-Term Debt	-	399,445	399,445	488,776
Total Current Liabilities	<u>147,639</u>	<u>896,525</u>	<u>1,044,164</u>	<u>955,488</u>
Long-Term Liabilities:				
Long-Term Portion of Note Payable	-	10,091,691	10,091,691	10,923,004
Total Long Term Liabilities	<u>-</u>	<u>10,091,691</u>	<u>10,091,691</u>	<u>10,923,004</u>
Total Liabilities	<u>147,639</u>	<u>10,988,216</u>	<u>11,135,855</u>	<u>11,878,492</u>
Net Assets:				
Unrestricted	1,446,337	-	1,446,337	1,360,392
Temporarily Restricted	-	6,187,295	6,187,295	4,766,241
Total Net Assets	<u>1,446,337</u>	<u>6,187,295</u>	<u>7,633,632</u>	<u>6,126,633</u>
Total Liabilities & Net Assets	<u>\$ 1,593,976</u>	<u>17,175,511</u>	<u>18,769,487</u>	<u>18,005,125</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, 2016
(With Comparative Totals for the Year Ended August 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
REVENUES				
Local Support (5720):				
Contributions	\$ 1,735	-	1,735	43,719
Cocurricular Activities	47,992	-	47,992	27,058
Other Income	36,218	-	36,218	7,798
Total Local Support	85,945	-	85,945	78,575
State Program Revenues (5820):				
Foundation School Program	-	9,476,547	9,476,547	8,317,674
Other State Aid	167,195	-	167,195	132,988
Total State Program Revenues	167,195	9,476,547	9,643,742	8,450,662
Federal Program Revenues (5920):				
ESEA, Title I, Part A, IBP	-	336,995	336,995	371,651
ESEA Title II, Part A	-	57,568	57,568	51,487
ESEA Title III, Part A	-	40,036	40,036	40,363
IDEA, Part B, Formula	-	132,407	132,407	126,520
IDEA Part B Preschool	-	4,124	4,124	1,324
Other Federal Funds	-	3,339	3,339	-
National School Lunch/Breakfast Program	-	572,583	572,583	504,929
Total Federal Program Revenues	-	1,147,052	1,147,052	1,096,274
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payments	9,202,545	(9,202,545)	-	-
Total Revenues	\$ 9,455,685	1,421,054	10,876,739	9,625,511

LA ACADEMIA DE ESTRELLAS
Statement of Activities
For the Year Ended August 31, 2016
(With Comparative Totals for the Year Ended August 31, 2015)
continued

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
EXPENSES				
Program Services:				
11 Instruction	\$ 5,327,532	-	5,327,532	4,911,042
12 Instruction Resources & Media Services	110,251	-	110,251	98,516
13 Curriculum Development & Instructional Staff Development	301,792	-	301,792	289,114
21 Instructional Leadership	70,558	-	70,558	67,350
23 School Leadership	561,931	-	561,931	556,423
31 Guidance, Counseling & Evaluation Services	278,561	-	278,561	199,669
33 Health Services	68,772	-	68,772	65,223
35 Food Services	658,106	-	658,106	580,204
36 Extra Curricular Activities	122,394	-	122,394	68,303
Total Program Services	<u>7,499,897</u>	<u>-</u>	<u>7,499,897</u>	<u>6,835,844</u>
Support Services:				
41 General Administration	421,392	-	421,392	429,142
51 Facilities Maintenance & Operations	902,618	-	902,618	1,045,562
52 Security & Monitoring Service	3,625	-	3,625	4,726
53 Data Processing	57,165	-	57,165	56,900
61 Community Services	7,458	-	7,458	49,819
71 Debt Service	477,585	-	477,585	357,603
Total Support Services	<u>1,869,843</u>	<u>-</u>	<u>1,869,843</u>	<u>1,943,752</u>
Total Expenses	<u>9,369,740</u>	<u>-</u>	<u>9,369,740</u>	<u>8,779,596</u>
Change in Net Assets	85,945	1,421,054	1,506,999	845,915
Net Assets Beginning of Year	<u>1,360,392</u>	<u>4,766,241</u>	<u>6,126,633</u>	<u>5,280,718</u>
Net Assets, End of Year	<u>\$ 1,446,337</u>	<u>6,187,295</u>	<u>7,633,632</u>	<u>6,126,633</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 ,2016
(With Comparative Totals for the Year Ended August 31, 2015)

	2016	2015
Cash Flows from Operating Activities:		
Foundation School Program Payments	\$ 9,421,616	\$ 8,496,876
Other State Aid	167,195	132,988
Federal Program Revenues	1,147,052	1,043,694
Other Income	86,904	79,575
Payments to Vendors	(1,700,927)	(1,960,026)
Payments to Employees	(6,703,717)	(6,260,945)
Interest Payments	(472,366)	(339,134)
Net Cash Provided by Operating Activities	1,945,757	1,193,028
Cash Flows from Investing Activities:		
Purchase of Capital Assets	-	(6,615,647)
Disposal of Capital Assets	200	-
Net Cash Provided by Investing Activities	200	(6,615,647)
Cash Flows from Financing Activities:		
Proceeds from Long-Term Debt	-	6,311,674
Payment on Long-Term Debt	(920,644)	(250,358)
Funds Held for Student Groups	-	8,687
Net Cash Provided by Financing Activities	(920,644)	6,070,003
Net Increase/Decrease in Cash	1,025,313	647,384
Cash at Beginning of Year	4,099,259	3,451,875
Cash at End of Year	\$ 5,124,572	4,099,259

Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities

Change in Net Assets	\$ 1,506,999	845,915
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	314,250	208,869
Amortization	5,219	5,219
Loss on Disposal of Assets	4,052	-
(Increase)/Decrease in Assets:		
Due from State	(54,931)	126,622
Other Receivables	(8,798)	1,000
Prepaid Expenses	959	48,518
Increase/(Decrease) in Liabilities:		
Accounts Payable	61,857	(22,671)
Accrued Liabilities	120,668	(17,074)
Other Adjustment	(4,518)	(3,370)
Net Cash Provided by Operating Activities	\$ 1,945,757	1,193,028

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, 2016

(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 eighth and is located at 4680 W. Kiest Blvd., Dallas, Texas and 1811 S. Hampton Rd., 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.

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.

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, 2016

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

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.

Cash & 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.

Income Tax Status

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

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.

Donated Services & Property

During the year ended August 31, 2016, 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.

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.

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2016

(B) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

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.

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, 2014, 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	\$ 8,225,843
Federally Funded Educational Programs	976,702
Total	<u>\$ 9,202,545</u>

Temporarily restricted assets, as of August 31, 2016, consisted of the following:

State Funded Educational Programs	\$ 6,187,295
Total	<u>\$ 6,187,295</u>

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2016

(D) DUE FROM STATE

Amounts due from State consist of:

	2016
Revenue Accrued for Students Starting Prior to August 31, 2016	\$ 421,035
National School Lunch/Breakfast Program	22,103
Federal Grant Revenue Earned	197,521
Total	\$ 640,659

(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:

	Balance 08/31/15	Additions	Retirements	Balance 08/31/16
Land	\$ 1,534,880	-	-	1,534,880
Building & Improvements	11,743,711	-	(5,219)	11,738,492
Vehicles	9,400	-	(9,400)	-
Furniture & Equipment	277,695	-	-	277,695
Total Cost	13,565,686	-	(14,619)	13,551,067
Less: Accumulated Depreciation	(289,193)	(314,250)	5,148	(598,295)
Net Capital Assets	\$ 13,276,493	(314,250)	(9,471)	12,952,772

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

Building & Improvements	15 - 40 years
Vehicles	7 years

For the period ended August 31, 2016, \$314,250 was charged to depreciation expense.

(F) LONG-TERM DEBT

A summary of changes in long-term debt follows:

<u>Description</u>	Balance 08/31/15	Additions	Retirements	Balance 08/31/16	Current Portion
Bank of America Note	\$ 361,253	-	(361,253)	-	-
Regions Equipment	173,806	-	(173,806)	-	-
Regions Equipment	10,876,721	-	(385,585)	10,491,136	399,445
	\$ 11,411,780	-	(920,644)	10,491,136	399,445

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2016

(F) LONG-TERM DEBT *(continued)*

Interest expense was \$472,367 and \$352,384 for fiscal years ended 2016 and 2015, respectively.

Long-term debt at August 31, 2016 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 loan was paid off as of 8/31/2016.

Financing and loan agreement with Regions Equipment Finance Corporation as lender, dated September 10, 2014. This loan agreement is to finance acquisition of furniture and equipment which will be collateralized. Interest, at a variable rate of approximately 3.85 percent, and principal payments are due each month starting May, 2015. The loan was paid off as of 8/31/2016.

Financing and loan agreements with Oglesby and Riesel Education Facilities Corporation as issuer and Regions Equipment Finance Corporation as lender, are dated August 16, 2013 and September 10, 2014, respectively. The loan agreements are to finance real property acquisition and construction which will be collateralized. The Oglesby loan (original principal amount of \$9.2 million) is at a variable rate, but has an equal size interest rate swap which creates an effective fixed rate of 4.63%. The Riesel EFC loan (original principal amount of \$1.85 million) is at a variable interest rate pegged to the 30-day LIBOR rate plus 244 basis points. Interest and principal payments are due each month starting March, 2015. The note must be paid in full or refinanced in February, 2025.

The estimated note amortization is as follows:

Fiscal Year End	Principal	Interest	Totals
08/31/17	\$ 399,445	477,346	876,791
08/31/18	413,960	458,547	872,507
08/31/19	429,162	439,062	868,224
08/31/20	445,083	418,858	863,941
08/31/21	461,757	397,901	859,658
Thereafter	<u>8,341,729</u>	<u>1,223,137</u>	<u>9,564,866</u>
	<u>\$ 10,491,136</u>	<u>3,414,851</u>	<u>13,905,987</u>

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2016

(G) DEFINED BENEFIT PENSION PLAN

Plan Description

The School participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms. There is not a collective-bargaining agreement.

Funding Policy

Under provisions of State law, plan members are required to contribute 7.2% of their annual covered salary and the State of Texas contributes an amount equal to 6.8% of the Schools covered payroll. The School's employee contributions to the System for the year ending August 31, 2016 were \$415,391 and were equal to the required State of Texas' contributions for the year.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Charter Schools are legally separate entities from the State and each other. Assets contributed by one Charter School may be used for the benefit of another Charter School. Unfunded pension obligations get passed along to other plan participants. There is no penalty for leaving the TRS system.

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

The information provided in the Notes to the Financial Statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan:

Total Plan Assets	\$ 133,485,187,642
Accumulated Benefit Obligations	\$ 166,452,924,504
Percentage of the Plan that is funded	80.19%

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2016

(G) DEFINED BENEFIT PENSION PLAN (continued)

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General appropriations Act (GAA) established the employer contribution rates for fiscal year 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for 2016 and 2017.

	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer Contributions	\$ 150,237	\$ 161,206

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2016

(G) DEFINED BENEFIT PENSION PLAN *(continued)*

Contributions *(continued)*

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

When a school district or charter school does not contribute to the Federal Old-Age Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Asset Valuation Method	5 Year Smoothed Market
Discount Rate	8.00%
Long-Term Expected Investment Rate of Return	8.00%
Salary Increases*	3.5% to 9%
Payroll Growth Rate	3.50%
Inflation Rate	2.50%

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2016

(G) DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Global Equity			
U.S.	18%	7.0%	1.0%
Non-U.S. Developed	13%	7.3%	0.8%
Emerging Markets	9%	8.1%	0.7%
Directional Hedge Funds	4%	5.4%	0.1%
Private Equity	13%	9.2%	1.1%
Stable Value			
U.S. Treasuries	11%	2.9%	0.1%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.1%
Cash	1%	2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.1%
Energy & Natural Resources	3%	8.8%	0.2%
Commodities	0%	3.4%	0.0%
Risk Parity			
Risk Parity	5%	8.9%	0.3%
Inflation Expectation	0%	0.0%	2.2%
Alpha	0%	0.0%	1.0%
Total	100%		8.7%

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2016

(H) COMMITMENTS & 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, 2016, 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.

(J) EVALUATION OF SUBSEQUENT EVENTS

The School has evaluated subsequent events through January 5, 2017 the date which the financial statements were available to be issued. During the fiscal year, a lawsuit was filed by a previous employee claiming discrimination. On December 31, 2016, a settlement was reached in the amount of \$84,000 with payments to be made in December 2016 and January 2017.

T. E. A. REQUIRED SCHEDULES

LA ACADEMIA DE ESTRELLAS
Schedule of Expenses
For the Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
EXPENSES		
6100 Payroll Costs	\$ 6,824,385	6,211,377
6200 Professional and Contracted Services	459,498	692,328
6300 Supplies and Materials	1,046,939	1,093,446
6400 Other Operating Costs	566,552	430,061
6500 Debt Service	472,366	352,384
Total Expenses	<u>\$ 9,369,740</u>	<u>8,779,596</u>

LA ACADEMIA DE ESTRELLAS
Schedule of Capital Assets
As of August 31, 2016

<u>Description</u>	<u>Ownership Interest</u>		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
1110 Cash	\$ 1,542,492	3,582,080	-
1510 Land	-	1,534,880	-
1520 Buildings & Improvements	-	11,738,492	-
1531 Vehicles	-	-	-
1539 Furniture & Equipment	-	277,695	-
Total	<u>\$ 1,542,492</u>	<u>17,133,147</u>	<u>-</u>

LA ACADEMIA DE ESTRELLAS
 Budgetary Comparison Schedule
 For the Year Ended August 31, 2016

	<u>Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance From Final Budget</u>
REVENUE & OTHER SUPPORT:			
Local Support:			
5740 Other Revenues from Local Sources	\$ 35,420	37,953	2,533
5750 Cocurricular Activities	33,300	47,992	14,692
Total Local Support	<u>68,720</u>	<u>85,945</u>	<u>17,225</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues	9,215,712	9,476,547	260,835
5820 State Program Revenue Distributed by the Texas Education Agency	153,011	167,195	14,184
Total State Program Revenues	<u>9,368,723</u>	<u>9,643,742</u>	<u>275,019</u>
Federal Program Revenues:			
5920 Federal Revenue Distributed by Texas Education Agency	1,236,635	1,147,052	(89,583)
Total Federal Program Revenues	<u>1,236,635</u>	<u>1,147,052</u>	<u>(89,583)</u>
Total Revenues	<u>10,674,078</u>	<u>10,876,739</u>	<u>202,661</u>
EXPENSES:			
Program Services:			
11 Instruction	5,308,651	5,327,532	(18,881)
12 Instructional Resources & Media Services	113,945	110,251	3,694
13 Curriculum Development & Instructional Staff Development	300,552	301,792	(1,240)
21 Instructional Leadership	70,586	70,558	28
23 School Leadership	604,403	561,931	42,472
31 Guidance, Counseling & Evaluation Services	265,380	278,561	(13,181)
33 Health Services	68,632	68,772	(140)
35 Food Services	638,362	658,106	(19,744)
36 Extracurricular Activities	120,400	122,394	(1,994)
Total Program Services	<u>7,490,911</u>	<u>7,499,897</u>	<u>(8,986)</u>
Support Services:			
41 General Administration	415,391	421,392	(6,001)
51 Facilities Maintenance & Operations	914,666	902,618	12,048
52 Security & Monitoring Services	11,500	3,625	7,875
53 Data Processing	59,532	57,165	2,367
61 Community Services	8,000	7,458	542
71 Debt Service	484,500	477,585	6,915
Total Support Services	<u>1,893,589</u>	<u>1,869,843</u>	<u>23,746</u>
Total Expenses	<u>9,384,500</u>	<u>9,369,740</u>	<u>14,760</u>
Change in Net Assets	1,289,578	1,506,999	217,421
Net Assets - Beginning	6,126,633	6,126,633	-
Net Assets - Ending	<u>\$ 7,416,211</u>	<u>7,633,632</u>	<u>217,421</u>

COMPLIANCE & INTERNAL CONTROLS SECTION

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EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, in accordance with the 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, the financial statements of La Academia de Estrellas (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered La Academia de Estrellas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance & Other Matters

As part of obtaining reasonable assurance about whether La Academia de Estrellas' financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Evans, Pingleton and Howard, PLLC

Evans, Pingleton and Howard, PLLC
January 5, 2017

EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors

La Academia de Estrellas (Charter Holder)

Dallas, Texas

Report on Compliance for Each Major Federal Program

We have audited La Academia De Estrellas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of La Academia De Estrellas' major federal programs for the year ended August 31, 2016. La Academia De Estrellas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of La Academia De Estrellas' major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of La Academia De Estrellas' compliance.

Opinion on Each Major Federal Program

In our opinion, La Academia De Estrellas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control Over Compliance

Management of La Academia De Estrellas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered La Academia De Estrellas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of La Academia De Estrellas' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Evans, Pingleton and Howard, PLLC

Evans, Pingleton and Howard, PLLC
January 5, 2017

LA ACADEMIA DE ESTRELLAS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2016

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements of the auditee	Unmodified
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	Unmodified
6. Findings disclosed by the audit of the financial statements which the auditor is required to report	None
7. Major Programs: (as tested) Child Nutrition Cluster (CFDA 10.553, 10.555)	
8. The dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
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 Expenditure of Federal Awards
For the Year Ended August 31, 2016

Grantor/Program Title

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identification Number</u>	<u>Federal Expenditures</u>
<u>United States Department of Education</u>			
<u>Passed Through Region X ESC:</u>			
ESEA, Title II, Part A, Discr.	84.367A	16694501057839	\$ 57,568
ESEA, Title III, Part A, LEP	84.365A	16671001057839	<u>40,036</u>
Total Passed Through Region X ESC			<u>97,604</u>
<u>Passed Through State Department of Education:</u>			
ESEA, Title I, Part A, IBP	84.010A	16610101057839	336,995
IDEA, Part B, Formula	84.027A	166600010578396000	132,407
IDEA, Part B, Preschool	84.173A	166610010578396000	4,124
Summer School LEP	84.369	69551502	<u>3,339</u>
Total Passed Through State Dept. of Education			<u>476,865</u>
Total United States Department of Education			<u>574,469</u>
<u>United States Department of Agriculture</u>			
<u>Passed Through State Department of Agriculture</u>			
National School Lunch	10.555	71301601	392,224
School Breakfast Program	10.553	71401601	<u>146,540</u>
Total Passed Through State Dept. of Agriculture			<u>538,764</u>
<u>Passed Through Texas Department of Human Resources</u>			
Donated Commodities	10.550	N/A	<u>33,819</u>
Total Passed Through Texas Dept. of Human Resources			<u>33,819</u>
Total United States Dept. of Agriculture			<u>572,583</u>
Total Expenditures of Federal Awards			<u>\$ 1,147,052</u>

LA ACADEMIA DE ESTRELLAS
Notes to Schedule of Expenditures of Federal Awards
For Year Ended August 31, 2016

Status of Prior Year's Finding

Program	Noncompliance
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-NONE-