

**LA ACADEMIA DE ESTRELLAS**

Financial Statements

August 31, 2007

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**CERTIFICATE OF BOARD**

|                                 |               |               |
|---------------------------------|---------------|---------------|
| <u>La Academia de Estrellas</u> | <u>Dallas</u> | <u>057839</u> |
| Name of Charter School          | County        | Co.-Dist. No. |

We, the undersigned, certify that the attached annual financial reports of the above named charter schools were reviewed and ( X ) approved ( ) disapproved for the year ended August 31, 2007, at a meeting of the governing body of said charter schools on the 1st day of December, 2007.

/s/ Holly E. Taylor  
Signature of Board Secretary

/s/ Nancy Wright  
Signature of Board President

If the auditor's report was disapproved, the reason(s) therefore is/are (attach list if necessary):

**PINGLETON, HOWARD & COMPANY, P. C.**

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 148

FRISCO, TEXAS 75034

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MEMBERS  
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TEXAS SOCIETY OF CPAs

**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 as of and for the year ended August 31, 2007. 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, 2007, 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 October 31, 2007, 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 and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

/s/ *Pingleton, Howard & Company, P.C.*

October 31, 2007

## **FINANCIAL STATEMENTS**

**LA ACADEMIA DE ESTRELLAS**

Statement of Financial Position

As of August 31, 2007

**ASSETS**

Current assets:

|                           |            |
|---------------------------|------------|
| Cash and cash equivalents | \$ 374,434 |
| Due from state            | 101,176    |
| Deferred expenses         | 2,491      |
| Other assets              | <u>400</u> |

Total current assets \$ 478,501

**LIABILITIES AND NET ASSETS**

Current liabilities:

|  |              |
|--|--------------|
| Accounts payable                         | \$ 11,070    |
| Accrued expenses                         | 404          |
| Accrued wages payable                    | 73,945       |
| Payroll taxes payable                    | 3,176        |
| Funds held for student and parent groups | <u>1,386</u> |
| Total current liabilities                | 89,981       |

Net assets:

|                        |                |
|------------------------|----------------|
| Unrestricted           | 387,146        |
| Temporarily restricted | <u>1,374</u>   |
| Total net assets       | <u>388,520</u> |

Total liabilities and net assets \$ 478,501

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, 2007

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>     |
|--|---------------------|-----------------------------------|------------------|
| <b>REVENUES</b>                                |                     |                                   |                  |
| Local support:                                 |                     |                                   |                  |
| Contributions                                  | \$ 120              |                                   | 120              |
| Interest and other income                      | <u>1,381</u>        | <u>6,634</u>                      | <u>8,015</u>     |
| Total local support                            | <u>1,501</u>        | <u>6,634</u>                      | <u>8,135</u>     |
| State program revenues:                        |                     |                                   |                  |
| Foundation School Program                      | 1,298,468           |                                   | 1,298,468        |
| Other state aid                                | <u>46,503</u>       | <u>4,658</u>                      | <u>46,503</u>    |
| Total state program revenues                   | <u>1,340,313</u>    | <u>4,658</u>                      | <u>1,344,971</u> |
| Federal program revenues:                      |                     |                                   |                  |
| Title V, Part B                                |                     | 217,090                           | 217,090          |
| Title III, Part A                              |                     | 500                               | 500              |
| ESEA, Title I, Part A                          |                     | 107,074                           | 107,074          |
| Title V, Part A                                |                     | 312                               | 312              |
| IDEA - Part B                                  |                     | 4,890                             | 4,890            |
| ESEA, Title IV                                 |                     | 1,219                             | 1,219            |
| National School Lunch Program                  |                     | 84,664                            | 84,664           |
| Title II, Part A, Teacher Training             |                     | <u>12,914</u>                     | <u>12,914</u>    |
| Total federal program revenues                 |                     | <u>428,663</u>                    | <u>428,663</u>   |
| Net assets released from restrictions:         |                     |                                   |                  |
| Restrictions satisfied by payments             | <u>439,409</u>      | <u>(439,409)</u>                  |                  |
| Total revenues                                 | <u>1,781,223</u>    | <u>546</u>                        | <u>1,781,769</u> |
| <b>EXPENSES</b>                                |                     |                                   |                  |
| Instruction                                    | 989,255             |                                   | 989,255          |
| Instructional resources and media services     | 7,360               |                                   | 7,360            |
| Curriculum and instructional staff development | 12,139              |                                   | 12,139           |
| Student leadership                             | 94,974              |                                   | 94,974           |
| General administrative                         | 58,017              |                                   | 58,017           |
| Guidance, counseling and evaluation services   | 2,640               |                                   | 2,640            |
| Plant maintenance and operations               | 147,113             |                                   | 147,113          |
| Data processing                                | 27,182              |                                   | 27,182           |
| Health service                                 | 1,149               |                                   | 1,149            |
| Food service                                   | 97,898              |                                   | 97,898           |
| Security and monitoring service                | <u>125</u>          |                                   | <u>125</u>       |
| Total expenses                                 | <u>1,437,852</u>    |                                   | <u>1,437,852</u> |
| Change in net assets                           | 343,371             | 546                               | 343,917          |
| Net assets at beginning of year                | <u>43,775</u>       | <u>828</u>                        | <u>44,603</u>    |
| Net assets at end of year                      | <u>\$ 387,146</u>   | <u>1,374</u>                      | <u>388,520</u>   |

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**LA ACADEMIA DE ESTRELLAS**  
Statement of Cash Flows  
For the Year Ended August 31, 2007

|  |                   |
|--|-------------------|
| Cash flows from operating activities:                          |                   |
| Contributions and fund-raising                                 | \$ 120            |
| State tuition and assistance                                   | 1,243,795         |
| Federal program revenue  | 428,663           |
| Cash paid to employees   | (699,017)         |
| Cash paid to suppliers   | (653,131)         |
| Interest and other income                                      | <u>8,015</u>      |
| Total cash flows from operating activities                     | <u>328,445</u>    |
|  |                   |
| Cash flows from capital and related financing activities:      |                   |
| Funds held for student and parent groups                       | <u>1,386</u>      |
| Total cash flows from capital and related financing activities | <u>1,386</u>      |
|  |                   |
| Net increase/(decrease) in cash and cash equivalents           | 329,831           |
|  |                   |
| Cash and equivalents at beginning of year                      | <u>44,603</u>     |
|  |                   |
| Cash and equivalents at end of year                            | \$ <u>374,434</u> |

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

|   |                   |
|---|-------------------|
| Change in net assets before other changes   | \$ 343,917        |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: |                   |
| Due from state  | (101,176)         |
| Deferred expenses   | (2,491)           |
| Other assets  | (400)             |
| Accrued wages payable   | 73,945            |
| Payroll taxes payable   | 3,176             |
| Accounts payable  | 11,070            |
| Accrued expense   | <u>404</u>        |
| Net cash provided by operating activities   | \$ <u>328,445</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, 2007

**(A) BACKGROUND**

La Academia de Estrellas Charter School (the School) is a non-profit Texas corporation formed in 2006. 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 kindergarten through fourth and is located at 125 Sunset 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 issued May 1, 2005.

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.

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**LA ACADEMIA DE ESTRELLAS**  
Notes to Financial Statements  
For the Year Ended August 31, 2007  
-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

The School has adopted Statement of Financial Accounting Standards (SFAS) No. 116 "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, 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, 2007, 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's programs and supporting services. Donations of property and equipment are recorded at the estimated fair value as of the date the contribution is received.

**LA ACADEMIA DE ESTRELLAS**  
Notes to Financial Statements  
For the Year Ended August 31, 2007  
-continued-

**(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:

|                                       |                   |
|---------------------------------------|-------------------|
| Locally funded educational programs   | \$ 6,634          |
| State funded educational programs     | 4,605             |
| Federally funded educational programs | <u>428,170</u>    |
| Total                                 | <u>\$ 439,409</u> |

Temporarily restricted assets, as of August 31, 2007, consisted of the following:

|                               |                 |
|-------------------------------|-----------------|
| National School Lunch Program | \$ (1,994)      |
| Technology                    | <u>3,368</u>    |
| Total                         | <u>\$ 1,374</u> |

**(D) CONCENTRATION OF CREDIT RISK**

The School frequently maintains cash in bank accounts that exceed F.D.I.C. coverage. This practice exposes the school to loss of assets in the event of bank failure.

**(E) DUE FROM STATE**

Amounts due from State consists of:

|   |                   |
|---|-------------------|
|   | <u>2007</u>       |
| Revenue accrued for students starting prior to<br>August 31, 2007 | \$ 61,170         |
| Federal grant revenue earned                                      | <u>40,006</u>     |
| Total   | <u>\$ 101,176</u> |

**LA ACADEMIA DE ESTRELLAS**  
Notes to Financial Statements  
For the Year Ended August 31, 2007  
-continued-

**(F) 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 (800) 877-0123.

Funding Policy - Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the School's covered payroll. The School's employees' contributions to the System for the year ended August 31, 2007 was \$45,315, which is equal to the required contributions for the year. The Texas Education Agency paid \$41,845 on employees behalf.

**(G) 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.

**(H) HEALTH CARE COVERAGE**

During the year ended August 31, 2007, employees of the School were covered by a Health Insurance Plan. The School contributed \$250 per month per employee to the Plan. Employees, at their option authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**(I) MAINTENANCE OF EFFORT**

The amount paid by the Corporation for school employees for health care premiums was as follows:

|  |                  |
|--|------------------|
| Total annual premiums paid for health care | \$ 68,764        |
| Subtract any non-medical expenditures:     |                  |
| Dental, Life and Disability Insurance      | (14,017)         |
| Amount paid for health insurance           | 54,747           |
| Less: TEA contribution                     | (10,800)         |
| Employee contribution                      | (18,276)         |
| Employer Cost                              | <u>\$ 25,671</u> |

## **SUPPLEMENTARY INFORMATION**

**LA ACADEMIA DE ESTRELLAS**  
Schedule of Expenses  
For the Year Ended August 31, 2007

**EXPENSES**

|   |                     |
|---|---------------------|
| 6100 Payroll cost                         | \$ 916,850          |
| 6200 Professional and contracted services | 153,704             |
| 6300 Supplies and materials               | 332,921             |
| 6400 Other operating costs                | <u>34,377</u>       |
|   | <u>\$ 1,437,852</u> |

**LA ACADEMIA DE ESTRELLAS**  
 Budgetary Comparison Schedule  
 For the Year Ended August 31, 2007

|   | Budgeted Amounts      |                   | Variance             |
|---|-----------------------|-------------------|----------------------|
| <b>REVENUES</b>   | Original and<br>Final | Actual<br>Amounts | from Final<br>Budget |
| Local support:  |                       |                   |                      |
| 5740 Other revenue from local sources                               | \$ 8,079              | 8,135             | 56                   |
| Total local support   | 8,079                 | 8,135             | 56                   |
| State program revenues:   |                       |                   |                      |
| 5810 Foundation school program act revenues                         | 1,340,000             | 1,298,468         | (41,532)             |
| 5820 State program revenue distributed by<br>Texas Education Agency | 4,658                 | 46,503            | 41,845               |
| Total State program revenues  | 1,344,658             | 1,344,971         | 313                  |
| Federal program revenue:  |                       |                   |                      |
| 5920 Federal revenue distributed by<br>Texas Education Agency       | 442,326               | 428,663           | (13,663)             |
| Total Federal program revenue                                       | 442,326               | 428,663           | (13,663)             |
| Total revenues  | 1,795,063             | 1,781,769         | (13,294)             |
| <b>EXPENSES</b>   |                       |                   |                      |
| 11 Instruction  | 986,051               | 989,255           | (3,204)              |
| 12 Instructional resources and media services                       | 12,600                | 7,360             | 5,240                |
| 13 Curriculum development and<br>Instructional staff development    | 8,967                 | 12,139            | (3,172)              |
| 23 School leadership  | 96,433                | 94,974            | 1,459                |
| 31 Guidance counseling  | 3,885                 | 2,640             | 1,245                |
| 33 Health services  | 90                    | 1,149             | (1,059)              |
| 35 Food service   | 93,686                | 97,898            | (4,212)              |
| 41 General administration   | 54,684                | 58,017            | (3,333)              |
| 51 Plant maintenance and operations                                 | 145,078               | 147,113           | (2,035)              |
| 52 Security and monitoring services                                 | 125                   | 125               |                      |
| 53 Data processing  | 26,810                | 27,182            | (372)                |
| Total expenses  | 1,428,409             | 1,437,852         | (9,443)              |
| Change in net assets  | 366,654               | 343,917           | (22,737)             |
| Net assets, beginning   | 44,603                | 44,603            | —                    |
| Net assets, ending  | \$ 411,257            | 388,520           | (22,737)             |

## **COMPLIANCE AND INTERNAL CONTROLS SECTION**



**PINGLETON, HOWARD & COMPANY, P. C.**

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Directors

**La Academia de Estrellas**

Dallas, Texas

We have audited the financial statements of La Academia de Estrellas as of and for the year ended August 31, 2007, and have issued our report thereon dated October 31, 2007. 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.

Compliance

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 grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered La Academia de Estrellas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

/s/ Pingleton, Howard & Company, P.C.

October 31, 2007