

LA ACADEMIA DE ESTRELLAS

Financial Statements

August 31, 2008

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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, 2008, at a meeting of the governing body of the charter holder on the ____ day of _____, 2008.

Signature of Board Secretary

Signature of Board President

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PINGLETON, HOWARD & COMPANY, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2008. 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, 2008, 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 23, 2008, 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.

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.

October 23, 2008

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FINANCIAL STATEMENTS

LA ACADEMIA DE ESTRELLAS
Statement of Financial Position
As of August 31, 2008
(With Comparative Amounts as of August 31, 2007)

ASSETS

	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 855,103	374,434
Due from state	101,684	101,176
Deferred expenses	863	2,491
Other assets	<u>1,500</u>	<u>400</u>
Total current assets	<u>\$ 959,150</u>	<u>478,501</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 35,177	11,070
Accrued expenses		404
Accrued wages payable	120,919	73,945
Payroll taxes payable	3,519	3,176
Funds held for student and parent groups		<u>1,386</u>
Total current liabilities	<u>159,615</u>	<u>89,981</u>
Net assets:		
Unrestricted	794,005	387,146
Temporarily restricted	<u>5,530</u>	<u>1,374</u>
Total net assets	<u>799,535</u>	<u>388,520</u>
Total liabilities and net assets	<u>\$ 959,150</u>	<u>478,501</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, 2008
(With Comparative Totals for the Year Ended August 31, 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2008</u>	<u>2007</u>
REVENUES				
Local support:				
Interest and other income	\$ <u>19,424</u>	<u>8,533</u>	<u>27,957</u>	<u>8,135</u>
Total local support	<u>19,424</u>	<u>8,533</u>	<u>27,957</u>	<u>8,135</u>
State program revenues:				
Foundation School Program	2,211,622		2,211,622	1,298,468
Other state aid	<u>96,347</u>	<u>8,194</u>	<u>104,541</u>	<u>46,503</u>
Total state program revenues	<u>2,307,969</u>	<u>8,194</u>	<u>2,316,163</u>	<u>1,344,971</u>
Federal program revenues:				
Title V, Part B		87,563	87,563	217,090
Title III, Part A		26,500	26,500	500
ESEA, Title I, Part A		106,138	106,138	107,074
Title V, Part A		344	344	312
IDEA - Part B		44,889	44,889	4,890
ESEA, Title IV				1,219
National School Lunch Program		133,839	133,839	84,664
Title II, Part A, Teacher Training		14,986	14,986	12,914
Title II, Part D		1,246	1,246	
Summer School LEP		<u>2,311</u>	<u>2,311</u>	
Total federal program revenues		<u>417,816</u>	<u>417,816</u>	<u>428,663</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>430,387</u>	<u>(430,387)</u>		
Total revenues	<u>2,757,780</u>	<u>4,156</u>	<u>2,761,936</u>	<u>1,781,769</u>
EXPENSES				
(11) Instruction	1,514,443		1,514,443	989,255
(12) Instructional resources and media services	24,977		24,977	7,360
(13) Curriculum development and instructional staff development	27,864		27,864	12,139
(21) Instructional leadership	5,787		5,787	
(23) School leadership	162,353		162,353	94,974
(31) Guidance, counseling and evaluation services	56,732		56,732	2,640
(33) Health service	3,544		3,544	1,149
(35) Food service	164,584		164,584	97,898
(41) General administrative	80,650		80,650	58,017
(51) Facilities maintenance and operations	275,507		275,507	147,113
(52) Security and monitoring service				125
(53) Data processing	<u>34,480</u>		<u>34,480</u>	<u>27,182</u>
Total expenses	<u>2,350,921</u>		<u>2,350,921</u>	<u>1,437,852</u>
Change in net assets	406,859	4,156	411,015	343,917
Net assets at beginning of year	<u>387,146</u>	<u>1,374</u>	<u>388,520</u>	<u>44,603</u>
Net assets at end of year	<u>\$ 794,005</u>	<u>5,530</u>	<u>799,535</u>	<u>388,520</u>

LA ACADEMIA DE ESTRELLAS
Statement of Cash Flows
For the Year Ended August 31, 2008
(With Comparative Amounts for the Year Ended August 31, 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Interest and other income	\$ 27,957	8,135
State tuition and assistance	2,315,655	1,243,795
Federal program revenue	417,816	428,663
Cash paid to employees	(1,374,526)	(699,017)
Cash paid to suppliers	<u>(904,847)</u>	<u>(653,131)</u>
Total cash flows from operating activities	<u>482,055</u>	<u>328,445</u>
 Cash flows from capital and related financing activities:		
Funds held for student and parent groups	<u>(1,386)</u>	<u>1,386</u>
Total cash flows from capital and related financing activities	<u>(1,386)</u>	<u>1,386</u>
 Net increase/(decrease) in cash and cash equivalents	480,669	329,831
 Cash and equivalents at beginning of year	<u>374,434</u>	<u>44,603</u>
 Cash and equivalents at end of year	\$ <u>855,103</u>	<u>374,434</u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets before other changes	\$ 411,015	343,917
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Due from state	(508)	(101,176)
Deferred expenses	1,628	(2,491)
Other assets	(1,100)	(400)
Accrued wages payable	46,974	73,945
Payroll taxes payable	343	3,176
Accounts payable	24,107	11,070
Accrued expense	<u>(404)</u>	<u>404</u>
Net cash provided by operating activities	\$ <u>482,055</u>	<u>328,455</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, 2008

(A) BACKGROUND

La Academia de Estrellas (Charter Holder) is a non-profit Texas corporation formed 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 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.

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, 2008
-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, 2008, 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, 2008
-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	\$ 8,533
State funded educational programs	4,038
Federally funded educational programs	<u>417,816</u>
Total	<u>\$ 430,387</u>

Temporarily restricted assets, as of August 31, 2008, consisted of the following:

Technology	\$ <u>5,530</u>
Total	<u>\$ 5,530</u>

(D) DUE FROM STATE

Amounts due from State consists of:

	<u>2008</u>
Revenue accrued for students starting prior to August 31, 2008	\$ 73,333
Federal grant revenue earned	<u>28,351</u>
Total	<u>\$ 101,684</u>

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2008
-continued-

(E) 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 6.58% of the School's covered payroll. The School's employees' contributions to the System for the year ended August 31, 2008 was \$87,006, which is equal to the required contributions for the year. The Texas Education Agency paid \$83,035 on employees behalf.

(F) 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.

(G) HEALTH CARE COVERAGE

During the year ended August 31, 2008, employees of the School were covered by a Health Insurance Plan. The School contributed \$266 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.

(H) 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	\$ 108,265
Subtract any non-medical expenditures:	
Dental, Life and Disability Insurance	<u>(25,552)</u>
Amount paid for health insurance	82,713
Less: TEA contribution	(18,675)
Employee contribution	<u>(17,554)</u>
Employer Cost	<u>\$ 46,484</u>

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2008
-continued-

(I) LEASE

The Academy entered into a lease agreement with Cliff Temple Baptist Church, which began on August 20, 2007 and ends June 30, 2009. Future minimum lease payments for the year ending August 31, 2009 is \$185,935.

SUPPLEMENTARY INFORMATION

LA ACADEMIA DE ESTRELLAS
Schedule of Expenses
For the Year Ended August 31, 2008

EXPENSES

6100 Payroll cost	\$ 1,659,671
6200 Professional and contracted services	283,358
6300 Supplies and materials	354,894
6400 Other operating costs	<u>52,998</u>
	<u>\$ 2,350,921</u>

LA ACADEMIA DE ESTRELLAS
 Budgetary Comparison Schedule
 For the Year Ended August 31, 2008

REVENUES	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>From Final</u>
				<u>Budget</u>
Local support:				
5740 Other revenue from local sources	\$ <u>24,798</u>	<u>25,454</u>	<u>27,957</u>	<u>2,503</u>
Total local support	<u>24,798</u>	<u>25,454</u>	<u>27,957</u>	<u>2,503</u>
State program revenues:				
5810 Foundation school program act revenues	1,750,000	2,100,000	2,211,622	111,622
5820 State program revenue distributed by				
Texas Education Agency	110	110	21,506	21,396
5830 State revenue from State of Texas Agencies	<u>71,184</u>	<u>71,184</u>	<u>83,035</u>	<u>11,851</u>
Total State program revenues	<u>1,821,294</u>	<u>2,171,294</u>	<u>2,316,163</u>	<u>144,869</u>
Federal program revenue:				
5920 Federal revenue distributed by				
Texas Education Agency	<u>640,738</u>	<u>452,022</u>	<u>417,816</u>	<u>(34,206)</u>
Total Federal program revenue	<u>640,738</u>	<u>452,022</u>	<u>417,816</u>	<u>(34,206)</u>
Total revenues	<u>2,486,830</u>	<u>2,648,770</u>	<u>2,761,936</u>	<u>113,166</u>
EXPENSES				
11 Instruction	1,598,112	1,543,484	1,514,443	29,041
12 Instructional resources and media services	30,000	23,048	24,977	(1,929)
13 Curriculum development and				
Instructional staff development	20,277	29,281	27,864	1,417
21 Instructional leadership		5,555	5,787	(232)
23 School leadership	164,505	149,283	162,353	(13,070)
31 Guidance, counseling and evaluation services	55,902	56,285	56,732	(447)
33 Health services	1,000	4,195	3,544	651
35 Food service	166,152	170,190	164,584	5,606
41 General administration	78,670	83,802	80,650	3,152
51 Facilities maintenance and operations	264,826	288,710	275,507	13,203
52 Security and monitoring services	400	400		400
53 Data processing	<u>32,723</u>	<u>32,966</u>	<u>34,480</u>	<u>(1,514)</u>
Total expenses	<u>2,412,567</u>	<u>2,387,199</u>	<u>2,350,921</u>	<u>36,278</u>
Change in net assets	74,263	261,571	411,015	149,444
Net assets, beginning	<u>388,520</u>	<u>388,520</u>	<u>388,520</u>	<u> </u>
Net assets, ending	<u>\$ <u>462,783</u></u>	<u><u>650,091</u></u>	<u><u>799,535</u></u>	<u><u>149,444</u></u>

COMPLIANCE AND INTERNAL CONTROLS SECTION

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MEMBERS
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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 the basic financial statements of La Academia de Estrellas (Charter Holder) as of and for the year ended August 31, 2008, and have issued our report thereon dated October 23, 2008. 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' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of La Academia de Estrellas' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements 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 combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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.

October 23, 2008