

LA ACADEMIA DE ESTRELLAS

Financial Statements

August 31, 2010

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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, 2010, at a meeting of the governing body of the charter holder on the ____ day of ____ _____, 2010.

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, 2010. 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, 2010, 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 25, 2010, 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. T.E.A. required schedules listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and the T.E.A. required schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 25, 2010

FINANCIAL STATEMENTS

LA ACADEMIA DE ESTRELLAS
Statement of Financial Position
As of August 31, 2010
(With Comparative Amounts as of August 31, 2009)

ASSETS	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 940,981	1,058,591
Due from state	225,073	147,964
Prepaid expenses	<u>18,375</u>	<u>18,780</u>
Total current assets	1,184,429	1,225,335
Capital assets, net	<u>891,594</u>	_____
Total assets	\$ <u><u>2,076,023</u></u>	<u><u>1,225,335</u></u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 57,439	29,791
Accrued liabilities	214,513	194,242
Current portion of long-term debt	<u>52,667</u>	_____
Total current liabilities	<u>324,619</u>	<u>224,033</u>
Long-term debt	<u>602,167</u>	_____
Total liabilities	<u>926,786</u>	<u>224,033</u>
Net assets:		
Unrestricted	1,002,448	992,539
Temporarily restricted	<u>146,789</u>	<u>8,763</u>
Total net assets	<u>1,149,237</u>	<u>1,001,302</u>
Total liabilities and net assets	\$ <u><u>2,076,023</u></u>	<u><u>1,225,335</u></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, 2010
(With Comparative Totals for the Year Ended August 31, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2010</u>	<u>2009</u>
REVENUES				
Local support:				
(5740) Other revenue from local sources	\$ 9,909		9,909	13,654
(5750) Cocurricular activities	<u>14,505</u>		<u>14,505</u>	<u>8,580</u>
Total local support	<u>24,414</u>		<u>24,414</u>	<u>22,234</u>
State program revenues:				
(5810) Foundation School Program Act Revenues		3,098,865	3,098,865	2,820,073
(5820) State program revenues distributed by Texas Education Agency	49,894		49,894	52,708
(5830) State revenue from State of Texas Agencies	<u> </u>	<u> </u>	<u> </u>	<u>122,514</u>
Total state program revenues	<u>49,894</u>	<u>3,098,865</u>	<u>3,148,759</u>	<u>2,995,295</u>
(5920) Federal program revenues:				
ESEA, Title V, Part B				
ESEA, Title III, Part A		13,545	13,545	6,709
ESEA, Title I, Part A, IBP		161,544	161,544	130,979
ESEA, Title I, Part A, ARRA		147,374	147,374	4,393
Student Success Initiative		43,021	43,021	
IDEA - Part B, Formula		89,106	89,106	61,816
IDEA, Part B, Formula, ARRA		38,601	38,601	5,209
ESEA, Title IV				1,829
National School Lunch/Breakfast Program		195,030	195,030	194,877
ESEA, Title II, Part A		28,355	28,355	20,655
ESEA, Title IV, Part A		2,053	2,053	
Title XIV, ARRA		47,289	47,289	
ESEA, Title II, Part D				2,081
Summer School LEP		<u> </u>	<u> </u>	<u>1,103</u>
Total federal program revenues		<u>765,918</u>	<u>765,918</u>	<u>429,651</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>3,726,757</u>	<u>(3,726,757)</u>		
Total revenues	\$ <u>3,801,065</u>	<u>138,026</u>	<u>3,939,091</u>	<u>3,447,180</u>

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LA ACADEMIA DE ESTRELLAS
Statement of Activities
For the Year Ended August 31, 2010
(With Comparative Totals for the Year Ended August 31, 2009)
-continued-

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2010</u>	<u>2009</u>
EXPENSES				
(11) Instruction	\$ 2,249,446		2,249,446	1,970,416
(12) Instructional resources and media services	73,940		73,940	73,278
(13) Curriculum development and instructional staff development	119,093		119,093	102,709
(21) Instructional leadership	67,114		67,114	71,601
(23) School leadership	233,706		233,706	221,580
(31) Guidance, counseling and evaluation services	91,931		91,931	61,790
(33) Health service	24,321		24,321	20,893
(35) Food service	195,030		195,030	218,724
(36) Extracurricular activities	27,974		27,974	6,774
(41) General administrative	156,712		156,712	145,868
(51) Facilities maintenance and operations	490,715		490,715	312,637
(52) Security and monitoring service	1,040		1,040	120
(53) Data processing	33,806		33,806	38,005
(61) Community services	11,873		11,873	1,018
(71) Debt service	<u>14,455</u>		<u>14,455</u>	
Total expenses	<u>3,791,156</u>		<u>3,791,156</u>	<u>3,245,413</u>
Change in net assets	9,909	138,026	147,935	201,767
Net assets at beginning of year	<u>992,539</u>	<u>8,763</u>	<u>1,001,302</u>	<u>799,535</u>
Net assets at end of year	<u>\$ 1,002,448</u>	<u>146,789</u>	<u>1,149,237</u>	<u>1,001,302</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, 2010
(With Comparative Amounts for the Year Ended August 31, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Foundation school program payments	\$ 3,037,247	2,797,282
Federal program revenue	765,013	408,123
Other state program revenues	49,894	173,261
Local support	9,828	22,234
Cash paid to employees	(2,340,999)	(2,003,559)
Cash paid to suppliers	(1,398,086)	(1,193,853)
Net cash provided by operating activities	<u>122,897</u>	<u>203,488</u>
Cash flows from investing activities:		
Purchase of capital assets	<u>(895,341)</u>	
Net cash used by investing activities	<u>(895,341)</u>	
Cash flows from financing activities:		
Long-term debt proceeds	667,500	
Payments on long-term debt	<u>(12,666)</u>	
Net cash provided by investing activities	<u>654,834</u>	
Net increase in cash and cash equivalents	(117,610)	203,488
Cash and equivalents at beginning of year	<u>1,058,591</u>	<u>855,103</u>
Cash and equivalents at end of year	<u>\$ 940,981</u>	<u>1,058,591</u>

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

Change in net assets	\$ 147,935	201,767
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,747	
Due from state	(77,109)	(46,280)
Prepaid expenses	405	(16,417)
Accrued liabilities	20,271	69,804
Accounts payable	<u>27,648</u>	<u>(5,386)</u>
Net cash provided by operating activities	<u>\$ 122,897</u>	<u>203,488</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, 2010

(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 kindergarten through fifth and is located at 111 S. Beckley Avenue in the North Oak Cliff section of Dallas, Texas.

(B) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Accounting

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

2. Basis of Presentation

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

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

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

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

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

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2010
-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, 2010, 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.

8. Capital Assets

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

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2010
-continued-

(B) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Capital Assets (continued)

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.

9. Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the period ended August 31, 2009, 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	\$ 2,960,839
Federally funded educational programs	<u>765,918</u>
Total	<u>\$ 3,726,757</u>

Temporarily restricted assets, as of August 31, 2010, consisted of the following:

State funded educational programs	\$ <u>146,789</u>
Total	\$ <u>146,789</u>

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2010
-continued-

(D) DUE FROM STATE

Amounts due from State consists of:

	<u>2010</u>
Revenue accrued for students starting prior to August 31, 2010	\$ 157,743
Federal grant revenue earned	49,847
Other earned state program revenue	<u>17,483</u>
Total	<u>\$ 225,073</u>

(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:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Transfers</u>	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Land - 1811 S. Hampton Road - 5/31/10	\$	284,880		284,880		284,880
Building & Improvements: 1811 S. Hampton Road 5/31/10		590,120		590,120	3,688	586,432
Improvements - 6/23/10		7,891		7,891	33	7,858
H.V.A.C. - 7/28/10		<u>12,450</u>		<u>12,450</u>	<u>26</u>	<u>12,424</u>
Total	\$	<u>895,341</u>		<u>895,341</u>	<u>3,747</u>	<u>891,594</u>

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

Building and improvements	15 - 40 years
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For the period ended August 31, 2010, \$3,747 was charged to depreciation expense.

(F) LONG-TERM DEBT

A summary of changes in long-term debt follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bank of America Note	\$	<u>667,500</u>	<u>12,666</u>	<u>654,834</u>	<u>52,667</u>

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2010
-continued-

(F) LONG-TERM DEBT (continued)

Long-term debt at August 31, 2010 consists of the following:

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

(G) PENSION PLAN OBLIGATION

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

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2009 and 2010, and a state contribution rate of 6.58% for the calendar year 2009 and 6.644% for the calendar year 2010. The charter school's employees' contributions to the System for the years ending August 31, 2009 and 2010 were \$124,901 and \$146,031, respectively, equal to the required contributions for each year.

(H) COMMITMENTS and CONTINGENCIES

The School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

LA ACADEMIA DE ESTRELLAS
Notes to Financial Statements
For the Year Ended August 31, 2010
-continued-

(I) HEALTH CARE COVERAGE

During the year ended August 31, 2010, employees of the School were covered by a Health Insurance Plan. The School contributed \$278 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.

(J) LEASE

The School has a one year lease agreement, starting August 1, 2010, with Cliff Temple Baptist Church. The monthly lease payment is \$27,874.

(K) EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended August 31, 2010, actual expenses exceeded budgeted amounts by more than ten percent in four functions, two of which are immaterial amounts, however, total actual expenses were \$327,313 less than budgeted.

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SUPPLEMENTAL INFORMATION

LA ACADEMIA DE ESTRELLAS
Schedule of Expenses
For the Years Ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
EXPENSES		
6100 Payroll cost	\$ 2,662,628	2,421,608
6200 Professional and contracted services	513,500	359,776
6300 Supplies and materials	506,443	386,243
6400 Other operating costs	94,130	77,786
6500 Debt service	<u>14,455</u>	
Total expenses	<u>\$ 3,791,156</u>	<u>3,245,413</u>

LA ACADEMIA DE ESTRELLAS

Schedule of Capital Assets

As of August 31, 2010

		<u>Ownership Interest</u>		
		<u>Local</u>	<u>State</u>	<u>Federal</u>
CAPITAL ASSETS				
1110	Cash		\$ 940,981	
1510	Land		284,880	
1520	Buildings and improvements		<u>606,714</u>	
	Total capital assets		\$ <u>1,832,575</u>	

LA ACADEMIA DE ESTRELLAS
 Budgetary Comparison Schedule
 For the Year Ended August 31, 2010

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	\$ 9,275	5,930	9,909	3,979
5750 Food service activity	<u>10,878</u>	<u>10,878</u>	<u>14,505</u>	<u>3,627</u>
Total local support	<u>20,153</u>	<u>16,808</u>	<u>24,414</u>	<u>7,606</u>
State program revenues:				
5810 Foundation school program act revenues	2,871,103	2,996,521	3,098,865	102,344
5820 State program revenue distributed by				
Texas Education Agency	84,783	91,940	49,894	(42,046)
5830 State revenue from State of Texas Agencies	<u>150,151</u>	<u>150,151</u>	<u> </u>	<u>(150,151)</u>
Total State program revenues	<u>3,106,037</u>	<u>3,238,612</u>	<u>3,148,759</u>	<u>(89,853)</u>
Federal program revenue:				
5920 Federal revenue distributed by				
Texas Education Agency	<u>845,537</u>	<u>879,821</u>	<u>765,918</u>	<u>(113,903)</u>
Total Federal program revenue	<u>845,537</u>	<u>879,821</u>	<u>765,918</u>	<u>(113,903)</u>
Total revenues	<u>3,971,727</u>	<u>4,135,241</u>	<u>3,939,091</u>	<u>(196,150)</u>
EXPENSES				
11 Instruction	2,333,637	2,599,604	2,249,446	350,158
12 Instructional resources and media services	72,441	73,013	73,940	(927)
13 Curriculum development and				
instructional staff development	108,811	143,095	119,093	24,002
21 Instructional leadership	56,166	68,191	67,114	1,077
23 School leadership	210,737	219,045	233,706	(14,661)
31 Guidance, counseling and evaluation services	61,307	62,678	91,931	(29,253)
33 Health services	22,521	22,565	24,321	(1,756)
35 Food service	219,628	213,502	195,030	18,472
36 Extracurricular activities	10,419	11,660	27,974	(16,314)
41 General administration	168,290	168,997	156,712	12,285
51 Facilities maintenance and operations	426,428	465,149	490,715	(25,566)
52 Security and monitoring services	400	400	1,040	(640)
53 Data processing	39,399	39,940	33,806	6,134
61 Community services	12,145	18,026	11,873	6,153
71 Debt service	<u> </u>	<u>12,504</u>	<u>14,455</u>	<u>(1,951)</u>
Total expenses	<u>3,742,329</u>	<u>4,118,369</u>	<u>3,791,156</u>	<u>327,213</u>
Change in net assets	229,398	16,872	147,935	131,063
Net assets, beginning	<u>1,001,302</u>	<u>1,001,302</u>	<u>1,001,302</u>	<u> </u>
Net assets, ending	<u>\$ 1,230,700</u>	<u>1,018,174</u>	<u>1,149,237</u>	<u>131,063</u>

COMPLIANCE AND INTERNAL CONTROLS SECTION

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PINGLETON, HOWARD & COMPANY, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS
AMERICAN INSTITUTE OF CPAs
AICPA DIVISION FOR CPA FIRMS
TEXAS SOCIETY OF CPAs

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, 2010, and have issued our report thereon dated October 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered La Academia de Estrellas's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of La Academia de Estrellas's internal control over financial reporting.

A deficiency in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Academia de Estrellas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management, others within the entity, and the Texas Education Agency and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 25, 2010

PINGLETON, HOWARD & COMPANY, P. C.

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors

La Academia de Estrellas (Charter Holder)

Dallas, Texas

Compliance

We have audited the compliance of the La Academia de Estrellas with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2010. La Academia de Estrellas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of La Academia de Estrellas's management. Our responsibility is to express an opinion on La Academia de Estrellas's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about La Academia de Estrellas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on La Academia de Estrellas's compliance with those requirements.

In our opinion La Academia de Estrellas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2010.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

This report is intended for the information and use of the Board of Directors, management, others within the entity, and the Texas Education Agency and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 25, 2010

LA ACADEMIA DE ESTRELLAS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2010

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements of the auditee	Unqualified
2. Significant deficiencies in internal controls disclosed by the audit of the financial statements	None
a. Significant deficiencies that were material weaknesses	None
3. Noncompliance material to the financial statements of the auditee disclosed by the audit of the financial statements	None
4. Significant deficiencies in internal controls over major programs disclosed by the audit of the financial statements	None
a. Significant deficiencies that were material weaknesses	None
5. Type of auditor's report issued on compliance for major programs	Unqualified
6. Findings disclosed by the audit of the financial statements which the auditor is required to report	None
7. Major Programs: ESEA Title 1, Part A (CFDA 84.010A) IDEA - B, Formula (CFDA 84.027A) ESEA, Title I, Part A ARRA (CFDA 84.389)	
8. The dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
9. Auditee qualified as a low- risk auditee	No

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

None identified.

III. Findings and questioned costs for state and federal awards

None identified.

LA ACADEMIA DE ESTRELLAS
Schedule of Status of Prior Findings
For the Year Ended August 31, 2010

<u>Program</u>	<u>Status of Prior Year's Finding/ Noncompliance</u>
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- NONE -

LA ACADEMIA DE ESTRELLAS
Schedule of Expenditure of Federal Awards
For the Year Ended August 31, 2010

Grantor/Program Title	Federal CFDA <u>Number</u>	Pass Through Entity Identification <u>Number</u>	Federal <u>Expenditures</u>
<u>United States Department of Education</u>			
<u>Passed Through Region X ESC:</u>			
ESEA, Title IV, Part A, SDFSC	84.186A	10691001057839	\$ 2,053
ESEA, Title II, Part A, Discr.	84.367A	10694501057839	28,355
ESEA, Title III, Part A, LEP	84.365A	10671001057839	<u>13,545</u>
Total Passed Through Region X ESC			<u>43,953</u>
<u>Passed Through State Department of Education:</u>			
Title XIV, ARRA	84.394A	10557001057839	47,289
Student Success Initiative Grant	84.394	090240057110008	43,021
ESEA, Title I, Part A, IBP	84.010A	10610101057839	161,544
ESEA, Title I, Part A, ARRA	84.389A	10551001057839	147,374
IDEA, Part B, Formula	84.027A	106600010578396600	89,106
IDEA, Part B, ARRA	84.391A	10554001057839	<u>38,601</u>
Total Passed Through State Department of Education			<u>526,935</u>
Total United States Department of Education			<u>570,888</u>
<u>United States Department of Agriculture</u>			
<u>Passed Through State Department of Agriculture:</u>			
National School Lunch	10.555	71301001	123,696
School Breakfast Program	10.553	71401001	<u>62,346</u>
Total Passed Through State Department of Agriculture			<u>186,042</u>
<u>Passed Through Texas Department of Human Resources</u>			
Donated commodities	10.550	N/A	<u>8,988</u>
Total Passed Through Texas Department of Human Resources			<u>8,988</u>
Total United States Department of Agriculture			<u>195,030</u>
Total Expenditures of Federal Awards			<u>\$ 765,918</u>

LA ACADEMIA DE ESTRELLAS
Notes to Schedule of Expenditures of Federal Awards
For Year Ended August 31, 2010

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide." Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred expenditures until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.
4. The District participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, in any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2010, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.