

**INTERNATIONAL AMERICAN
EDUCATION FEDERATION, INC.**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2014**

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

TABLE OF CONTENTS

AUGUST 31, 2014

	<u>Page Number</u>
Certificate of Board.....	1
Independent Auditors' Report.....	2 – 4
FINANCIAL STATEMENTS	
Statement of Financial Position	5
Statement of Activities.....	6
Statement of Cash Flows	7
Notes to Financial Statements.....	8 – 16
SPECIFIC-PURPOSE FINANCIAL STATEMENTS	
International Leadership of Texas Statement of Financial Position	17
International American Education Federation, Inc. Statement of Financial Position	18
International Leadership of Texas Statement of Activities.....	19
International American Education Federation, Inc. Statement of Activities.....	20
International Leadership of Texas Statement of Cash Flows	21
International American Education Federation, Inc. Statement of Cash Flows	22
International Leadership of Texas – Schedule of Expenses	23
International American Education Federation, Inc. – Schedule of Expenses	24
International Leadership of Texas – Schedule of Capital Assets	25

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

TABLE OF CONTENTS

AUGUST 31, 2014

	<u>Page Number</u>
International American Education Federation, Inc. – Schedule of Capital Assets	26
International Leadership of Texas – Budgetary Comparison Schedule.....	27
International American Education Federation, Inc. – Budgetary Comparison Schedule.....	28

COMPLIANCE AND INTERNAL CONTROL SECTION

Internal Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29 – 30
Internal Auditors’ Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	31 – 33
Schedule of Expenditures of Federal Awards.....	34
Notes to Schedule of Federal Awards.....	35
Findings and Questioned Costs.....	36 – 37
Prior Year Findings.....	38

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

CERTIFICATE OF BOARD


AUGUST 31, 2014

International American Education Federation
Name of Charter Holder
Federal EIN: 27-4549127


Dallas
County

057-848
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2014, at a meeting of the governing body of the charter holder on the 14th day of January, 2015.



Signature of Board Secretary



Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

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PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
International American Education Federation, Inc.
Richardson, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of International American Education Federation, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International American Education Federation, Inc. as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 17 through 18 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2015, on our consideration of International American Education Federation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering International American Education Federation, Inc.'s internal control over financial reporting and compliance.

Pattillo, Brown + Hill, L.L.P.

Waco, Texas
January 14, 2015

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GENERAL PURPOSE FINANCIAL STATEMENTS

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2014

ASSETS

CURRENT ASSETS

	<u>2014</u>
Cash and cash equivalents	\$ 1,984,829
Due from other governments	1,656,754
Accounts receivable, net	4,599
Deferred expense	<u>100,000</u>
Total Current Assets	<u>3,746,182</u>
Capitalized bond issuance costs	42,601

PROPERTY AND EQUIPMENT

Furniture and equipment	2,241,614
Vehicles	45,722
Less accumulated depreciation	<u>(454,038)</u>
Total Property and Equipment	<u>1,833,298</u>
Total Assets	<u>\$ 5,622,081</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 479,497
Deferred revenue	700,695
Accrued wages payable	432,115
Payroll deductions and withholdings	39,984
Current portion of long-term debt	<u>660,995</u>
Total Current Liabilities	<u>2,313,286</u>

LONG-TERM LIABILITIES

Long-term debt	<u>4,092,400</u>
Total Long-Term Liabilities	<u>4,092,400</u>
Total Liabilities	<u>\$ 6,405,686</u>

NET ASSETS

Unrestricted	\$(894,045)
Temporarily restricted	<u>110,440</u>
Total Net Assets	<u>(783,605)</u>
Total Liabilities and Net Assets	<u>\$ 5,622,081</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014

	Unrestricted	Temporarily Restricted	Totals 2014
REVENUE			
Local Revenue:			
Foundations, Other Non-Profit Organizations, Gifts, and Bequests	\$ -	\$ 107,513	\$ 107,513
Food Service Activity	-	157,041	157,041
Athletic Activities	4,970	-	4,970
Other Revenue from local sources	575,267	-	575,267
Total Local Revenue	<u>580,237</u>	<u>264,554</u>	<u>844,791</u>
State Program Revenue:			
Foundation School Program Act Revenue	-	20,417,294	20,417,294
State Program Revenue Distributed by TEA	-	53,050	53,050
Total State Program Revenue	<u>-</u>	<u>20,470,344</u>	<u>20,470,344</u>
Federal Program Revenue:			
National School Breakfast and Lunch Program	-	533,611	533,611
Federal Program Revenue Distributed by TEA	-	711,598	711,598
Total Federal Program Revenue	<u>-</u>	<u>1,245,209</u>	<u>1,245,209</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	21,869,667	(21,869,667)	-
Total Revenue	<u>\$ 22,449,904</u>	<u>\$ 110,440</u>	<u>\$ 22,560,344</u>
EXPENSES			
Program Services:			
Instruction	\$ 11,871,054	\$ -	\$ 11,871,054
Instruction Resources and Media	100,872	-	100,872
Curriculum and Instructional Staff Development	246,127	-	246,127
Instructional Leadership	459,494	-	459,494
School Leadership	1,628,673	-	1,628,673
Guidance, Counseling, and Evaluating Services	406,115	-	406,115
Health Services	276,296	-	276,296
Student Transportation	16,170	-	16,170
Food Services	952,243	-	952,243
Extracurricular Activities	619,451	-	619,451
General Administration	963,711	-	963,711
Facilities Maintenance and Operations	3,641,012	-	3,641,012
Security and Monitoring Services	199,591	-	199,591
Data Processing	302,351	-	302,351
Community Services	289,587	-	289,587
Debt Service	306,798	-	306,798
Fund Raising	22,740	-	22,740
Total Expenses	<u>22,302,285</u>	<u>-</u>	<u>22,302,285</u>
CHANGE IN NET ASSETS	<u>147,619</u>	<u>110,440</u>	<u>258,059</u>
NET ASSETS, BEGINNING	<u>(1,041,664)</u>	<u>-</u>	<u>(1,041,664)</u>
NET ASSETS, END OF YEAR	<u><u>\$ (894,045)</u></u>	<u><u>\$ 110,440</u></u>	<u><u>\$ (783,605)</u></u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2014

	<u>2014</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$ 258,060
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	454,038
(Increase) decrease in due from TEA	(738,333)
(Increase) decrease in accounts receivable	(4,599)
(Increase) decrease in deferred expenses	(100,000)
Increase (decrease) in accounts payable	185,354
Increase (decrease) in deferred revenue	700,695
Increase (decrease) in wages payable	122,611
Increase (decrease) in payroll deductions and withholdings	<u>39,416</u>
Net Cash Provided (Used) by Operating Activities	<u>917,242</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of land, buildings, and equipment	(2,287,336)
Net Cash Provided (Used) by Investing Activities	<u>(2,287,336)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Capitalization of debt issuance costs	(42,601)
Issuance of long-term debt	3,500,911
Principal payments on debt	<u>(347,516)</u>
Net Cash Provided (Used) by Financing Activities	<u>3,110,794</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,740,700
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>244,129</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,984,829</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

1. Reporting Entity

International American Education Federation, Inc., (the corporation), is a not-for-profit organization incorporated in the State of Texas in 2011 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The corporation is governed by a Board of Directors comprised of 5 members. The Board of Directors is selected pursuant to the bylaws of the corporation and has the authority to make decisions, appoint the chief executive officer of the corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the corporation.

Since the corporation received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

2. Corporate Operations

In 2012, the State Board of Education of the State of Texas granted the corporation an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, International Leadership of Texas Charter School was opened. The Texas State Board of Education issued the initial charter to the corporation for a period of five years from May 21, 2013, to July 31, 2018.

B. Basis of Accounting and Presentation

The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenue, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenue whose restrictions are met in the same year as received are shown as unrestricted revenue. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

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 Organization, 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 holder’s activities due to donor-imposed restrictions.

C. Use of Estimates

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

D. Federal Income Tax Status

The Organization is exempt from federal income tax under 501(c)(3) of the Internal Revenue Code and is classified as a public charity under 509(a)(1) and 170(b)(1)(A)(ii). The Organization files annual federal information returns that are subject to routine examinations; however, there are no examinations for any tax periods currently in progress.

E. Contributions

The Organization accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

No amounts have been reflected in the financial statements for donated materials or services since no objective basis is available to measure the value thereof; however, a substantial number of volunteers donate their time to the school program services and in fund-raising activities.

F. Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

G. Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the Organization as assets with an estimated useful life of more than one year and a cost of \$5,000 or more. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to thirty years, using the straight-line method of depreciation. Expenditures for additions, major renewals, and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

H. Capitalized Bond Issuance Costs

Capitalized bond issuance costs represent costs incurred related to the issuance of notes payable and are amortized over the term of the bonds or notes.

I. Personal Leave

All employees of the Organization earn five days of state paid personal and sick leave per year and three days of local paid personal and sick leave per year. There is no material liability for unpaid accumulated sick leave since the schools do not have a policy to pay any amount when the employees separate from service with the schools, and any unused balance of state days is transferable to other schools.

J. Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

II. CASH DEPOSITS

The Organizations funds are deposited and invested with depository banks. The depository bank should deposit for safekeeping and trust with the Organization's agent banks approved pledged securities in an amount sufficient to protect charter school funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository banks' dollar amount of Federal Deposit Insurance Organization ("FDIC") insurance.

At August 31, 2014, the combined carrying amount of the Organization's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) were entirely covered by FDIC insurance or by pledged collateral held by the Organization's agent bank in the Organization's name.

III. INVESTMENTS

The Organization had no investments in marketable securities at August 31, 2014.

IV. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2014, the Organization had no material liability for accrued sick leave or vacation leave.

V. PENSION PLAN OBLIGATIONS

A. Plan Description

International American Education Federation, Inc. contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

B. Funding Policy

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 during the fiscal year; (2) state statute prohibits benefit improvements, if as result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Contribution rates and contributions for fiscal year 2014 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and/or member's contribution and on the portion of the employee's salaries that exceeded the statutory minimum.

Year	Member		State		Statutory Minimum Amount
	Rate	Amount	Rate	Amount	
2014	6.4%	\$ 749,421	6.8%	\$ 697,638	\$ -

VI. PUBLIC SCHOOL RETIREE HEALTH PLAN

A. Plan Description

International American Education Federation, Inc. contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

B. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal year 2014.

Year	Contribution Rates and Amounts					
	Active Employees		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2014	0.65%	\$ 76,113	1.0%	\$ 117,097	0.55%	\$ 64,403

C. Additional Plans

Certain employees of International American Education Federation, Inc. are also provided with Social Security and Medicare coverage. Under provisions of federal law, covered employees contribute 6.2% (Social Security) and 1.45% (Medicare) of their annual covered salary, and the Organization contributes 6.2% (social Security) and 1.45% (Medicare) of the covered payroll.

VII. HEALTH CARE COVERAGE

During the year ended August 31, 2014, full-time employees of International American Education Federation, Inc. were covered by a health insurance plan (the Plan). The Organization contributed \$325 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.

VIII. COMMITMENTS AND CONTINGENCIES

International American Education Federation, Inc. 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 agencies. The programs administered by the Organization have complex compliance requirements and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the Texas Education Agency or the grantor agencies. In the opinion of the Organization, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

IX. CAPITAL ASSETS

Capital assets at August 31, 2014 were as follows:

	Balance 09/01/13	Additions	Deletions	Balance 08/31/14
Vehicles	-	45,722	-	45,722
Furniture and equipment (capital leases)	-	2,241,614	-	2,241,614
Accumulated depreciation	-	(454,038)	-	(454,038)
	\$ -	\$ 1,833,298	\$ -	\$ 1,833,298

X. ECONOMIC DEPENDENCY

During the year ended August 31, 2014, International American Education Federation, Inc. earned revenue of \$20,470,344 from the Texas Education Agency (TEA). These amounts constitute approximately 90.9% of total revenues earned. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the Organization to continue to provide the current level of services to its students.

XI. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the year ending August 31, 2014 consisted of the following:

	2014
National School Breakfast and Lunch Program	\$ 18,485
Campus Activity Funds	9,302
Confucius Institute	30,978
Ed Rachel Foundation Grant	51,675
	\$ 110,440

XII. DEFERRED REVENUE

Deferred revenue at August 31, 2014 consisted of the following:

	<u>2014</u>
Textbook allotment	\$ 7,695
Foreign student housing	374,938
Foreign student tuition	<u>318,062</u>
	<u>\$ 700,695</u>

XIII. LONG-TERM DEBT

Long-term debt at August 31, 2014 consisted of the following:

	<u>2014</u>
Loans and capital leases consist of the following:	
<p>\$2,200,000 loan, issued by Vintage Bank. The loan bears interest at a rate of 6.0% and is due in monthly installments of \$42,613 with the loan being interest only until March of 2015. The loan expires in February of 2020. The loan was used for start up costs, equipment and materials. The loan is secured by real property.</p>	\$ 2,200,000
<p>\$759,297 loan, issued by Vintage Bank. The loan bears interest at a rate of 6.0% and is due in monthly installments of \$17,859 with the loan being interest only until March of 2015. The loan expires in February of 2019. The loan was used for the purchase of instructional materials. The loan is secured by real property.</p>	759,297
<p>\$2,141,614 capital lease, issued by C2M Tech. The lease bears interest at a rate of 10% and is due in monthly installments of \$45,503. The capital lease expires in August of 2018. The capital lease was used for computer equipment and technology improvements. The capital lease is secured by the equipment.</p>	<u>1,794,098</u>
Total Debt	<u>\$ 4,753,395</u>
Less Current Portion of Long-term Debt	<u>(660,995)</u>
Total Long-term Debt	<u>\$ 4,092,400</u>

Future maturities of long-term debt at August 31, 2014 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	\$ 660,995	\$ 338,626	\$ 999,621
2016	1,002,131	269,572	1,271,703
2017	1,083,111	188,593	1,271,704
2018	1,170,618	101,085	1,271,703
2019	585,367	33,146	618,513
Thereafter	251,173	4,505	255,678
Total	<u>\$ 4,753,395</u>	<u>\$ 935,527</u>	<u>\$ 5,688,922</u>

XIV. LEASE COMMITMENTS

International American Education Federation, Inc. leases school and office space and certain equipment under noncancellable operating leases. Future minimum lease payments are due as follows:

<u>Year Ended August 31,</u>	
2015	\$ 7,163,187
2016	7,497,523
2017	7,689,360
2018	7,769,400
2019	7,967,786
Thereafter	8,171,256
Total	<u>\$ 46,258,512</u>

Operating lease expenses were approximately \$2,358,431 for the year ended August 31, 2014.

XVI. SUBSEQUENT EVENTS

The Organization entered into two capital leases with C2M Tech for computer equipment and technology improvements. The leases are dated September 1, 2014 and October 28, 2014 and require monthly installments of \$44,411 and \$2,111. The leases bear interest at a rate of 10% and end on August 28, 2020 and October 28, 2019. The leases are secured by the equipment.

XVII. FAIR VALUE MEASUREMENTS

The Fair Value Measurements provides a framework for measuring fair value under generally accepted accounting principles. Statement No. 157 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in Statement No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the organization uses various methods including market, income, and cost approaches. Based on these approaches, the organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The organization utilized valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories.

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The Organization has no financial instruments that are being measured and reported on a fair value basis.

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SPECIFIC-PURPOSE FINANCIAL STATEMENTS

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INTERNATIONAL LEADERSHIP OF TEXAS

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2014

ASSETS

	<u>2014</u>
CURRENT ASSETS	
Cash and cash equivalents	1,633,476
Due from TEA	1,656,754
Accounts receivable, net	3,350
Deferred expense	<u>100,000</u>
Total Current Assets	<u>3,393,580</u>
Capitalized bond issuance costs	42,601
PROPERTY AND EQUIPMENT	
Furniture and equipment	2,241,614
Vehicles	45,722
Less accumulated depreciation	<u>(454,038)</u>
Total Property and Equipment	<u>1,833,298</u>
Total Assets	<u>\$ 5,269,479</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 433,839
Deferred revenue	325,757
Accrued wages payable	432,115
Payroll deductions and withholdings	39,767
Current portion of long-term debt	<u>660,995</u>
Total Current Liabilities	<u>1,892,473</u>
LONG-TERM LIABILITIES	
Long-term debt	<u>4,057,400</u>
Total Long-Term Liabilities	<u>4,057,400</u>
Total Liabilities	<u>\$ 5,949,873</u>
NET ASSETS	
Unrestricted	\$(790,834)
Temporarily restricted	<u>110,440</u>
Total Net Assets	<u>(680,394)</u>
Total Liabilities and Net Assets	<u>\$ 5,269,479</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2014

ASSETS

	<u>2014</u>
CURRENT ASSETS	
Cash and cash equivalents	351,353
Accounts receivable, net	<u>1,249</u>
Total Current Assets	<u>352,602</u>
Total Assets	<u>\$ 352,602</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	45,658
Deferred revenue	374,938
Payroll deductions and withholdings	<u>217</u>
Total Current Liabilities	<u>420,813</u>
LONG-TERM LIABILITIES	
Long-term debt	<u>35,000</u>
Total Long-Term Liabilities	<u>35,000</u>
Total Liabilities	<u>\$ 455,813</u>
NET ASSETS	
Unrestricted	\$(103,211)
Temporarily restricted	<u>-</u>
Total Net Assets	<u>(103,211)</u>
Total Liabilities and Net Assets	<u>\$ 352,602</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL LEADERSHIP OF TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014

	Unrestricted	Temporarily Restricted	Totals 2014
REVENUE			
Local Revenue:			
Foundations, Other Non-Profit Organizations, Gifts, and Bequests	\$ -	\$ 107,513	\$ 107,513
Food Service Activity	-	157,041	157,041
Athletic Activities	4,970	-	4,970
Other Revenue from local sources	541,182	-	541,182
Total Local Revenue	546,152	264,554	810,706
State Program Revenue:			
Foundation School Program Act Revenue	-	20,417,294	20,417,294
State Program Revenue Distributed by TEA	-	53,050	53,050
Total State Program Revenue	-	20,470,344	20,470,344
Federal Program Revenue:			
National School Breakfast and Lunch Program	-	533,611	533,611
Federal Program Revenue Distributed by TEA	-	711,598	711,598
Total Federal Program Revenue	-	1,245,209	1,245,209
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	21,869,667	(21,869,667)	-
Total Revenue	\$ 22,415,819	\$ 110,440	\$ 22,526,259
EXPENSES			
Program Services:			
Instruction	\$ 11,859,472	\$ -	\$ 11,859,472
Instruction Resources and Media	100,872	-	100,872
Curriculum and Instructional Staff Development	246,127	-	246,127
Instructional Leadership	459,494	-	459,494
School Leadership	1,628,673	-	1,628,673
Guidance, Counseling, and Evaluating Services	406,115	-	406,115
Health Services	276,296	-	276,296
Student Transportation	16,170	-	16,170
Food Services	952,243	-	952,243
Extracurricular Activities	544,933	-	544,933
General Administration	920,895	-	920,895
Facilities Maintenance and Operations	3,637,023	-	3,637,023
Security and Monitoring Services	199,591	-	199,591
Data Processing	302,351	-	302,351
Community Services	289,587	-	289,587
Debt Service	306,798	-	306,798
Fund Raising	22,740	-	22,740
Total Expenses	22,169,380	-	22,169,380
CHANGE IN NET ASSETS	246,439	110,440	356,879
NET ASSETS, BEGINNING	(1,037,273)	-	(1,037,273)
NET ASSETS, END OF YEAR	\$(790,834)	\$ 110,440	\$(680,394)

See independent auditors' report and notes to financial statements.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2014</u>
REVENUE			
Local Revenue:			
Other Revenue from local sources	\$ 34,085	\$ -	\$ 34,085
Total Local Revenue	<u>\$ 34,085</u>	<u>\$ -</u>	<u>\$ 34,085</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>\$ 34,085</u>	<u>\$ -</u>	<u>\$ 34,085</u>
EXPENSES			
Program Services:			
Instruction	11,581	\$ -	\$ 11,581
Extracurricular Activities	74,518	-	74,518
General Administration	42,816	-	42,816
Facilities Maintenance and Operations	<u>3,989</u>	<u>-</u>	<u>3,989</u>
Total Expenses	<u>132,904</u>	<u>-</u>	<u>132,904</u>
CHANGE IN NET ASSETS	<u>(98,819)</u>	<u>-</u>	<u>(98,819)</u>
NET ASSETS, BEGINNING	<u>(4,392)</u>	<u>-</u>	<u>(4,392)</u>
NET ASSETS, END OF YEAR	<u>\$(103,211)</u>	<u>\$ -</u>	<u>\$(103,211)</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL LEADERSHIP OF TEXAS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2014

	<u>2014</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$ 356,879
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	454,038
(Increase) decrease in due from TEA	(738,333)
(Increase) decrease in accounts receivable	(3,350)
(Increase) decrease in deferred expenses	(100,000)
Increase (decrease) in accounts payable	139,696
Increase (decrease) in deferred revenue	325,757
Increase (decrease) in wages payable	122,611
Increase (decrease) in payroll deductions and withholdings	39,767
Net Cash Provided (Used) by Operating Activities	<u>597,065</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of land, buildings, and equipment	(2,287,336)
Net Cash Provided (Used) by Investing Activities	<u>(2,287,336)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Capitalization of debt issuance costs	(42,601)
Issuance of long-term debt	3,500,911
Principal payments on debt	(347,516)
Net Cash Provided (Used) by Financing Activities	<u>3,110,794</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,420,523
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>212,953</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,633,476</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2014

	<u>2014</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$(98,819)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	(1,249)
Increase (decrease) in accounts payable	45,658
Increase (decrease) in deferred revenue	374,938
Increase (decrease) in payroll deductions and withholdings	(351)
Net Cash Provided (Used) by Operating Activities	<u>320,177</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	320,177
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>31,176</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 351,353</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL LEADERSHIP OF TEXAS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2014

EXPENSES	<u>2014</u>
6100 Payroll Costs	\$ 13,825,242
6200 Professional & Contract Services	5,553,721
6300 Supplies & Materials	1,523,271
6400 Other Operating Costs	960,348
6500 Debt Service	<u>306,798</u>
Total Expenses	<u>\$ 22,169,380</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2014

EXPENSES	<u>2014</u>
6100 Payroll Costs	\$ 41,752
6200 Professional & Contract Services	613
6300 Supplies & Materials	4,163
6400 Other Operating Costs	<u>86,376</u>
 Total Expenses	 <u>\$ 132,904</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL LEADERSHIP OF TEXAS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2014

	Ownership Interest		
	Local	State	Federal
1541 Vehicles (<\$5,000)	\$ 45,722	\$ -	\$ -
1559 Furniture and Equipment (Capital Leases)	2,241,614	-	-
1570 Accumulated Depreciation	(454,038)	-	-
Total Property and Equipment	<u>\$ 1,833,298</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2014

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ -	\$ -
1520 Buildings and Improvements	-	-	-
1531 Vehicles	-	-	-
1539 Furniture and Equipment	-	-	-
1541 Vehicles (<\$5,000)	-	-	-
1549 Furniture and Equipment (<\$5,000)	-	-	-
1551 Building (Capital Leases)	-	-	-
1559 Furniture and Equipment (Capital Leases)	-	-	-
1569 Library Books and Media	-	-	-
1570 Accumulated Depreciation	-	-	-
1590 Other Capital Assets	-	-	-
	<hr/>	<hr/>	<hr/>
Total Property and Equipment	\$ -	\$ -	\$ -

See independent auditors' report and notes to financial statements.

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INTERNATIONAL LEADERSHIP OF TEXAS

BUDGET COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

	Budget Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUE				
Local Revenue:				
5740 Other Local Revenue	\$ 25,000	\$ 684,899	\$ 648,695	\$(36,204)
5750 Food Service, Cocurricular, & Enterprising	1,000,000	163,060	162,011	(1,049)
Total Local Revenue	<u>1,025,000</u>	<u>847,959</u>	<u>810,706</u>	<u>(37,253)</u>
State Program Revenue:				
5810 Foundation School Program	21,007,236	19,719,317	20,417,294	697,977
5820 State Program Revenue Distributed by TEA	-	76	53,050	52,974
Total State Program Revenue	<u>21,007,236</u>	<u>19,719,393</u>	<u>20,470,344</u>	<u>750,951</u>
Federal Program Revenue:				
5920 Federal Program Revenue Distributed by TEA	705,512	1,442,997	1,245,209	(197,788)
Total Federal Program Revenue	<u>705,512</u>	<u>1,442,997</u>	<u>1,245,209</u>	<u>(197,788)</u>
Total Revenue	<u>\$ 22,737,748</u>	<u>\$ 22,010,349</u>	<u>\$ 22,526,259</u>	<u>\$ 515,910</u>
EXPENSES				
11 Instructional	\$ 11,987,931	\$ 11,706,281	\$ 11,859,472	\$(153,191)
12 Instructional Resources & Media Services	-	107,019	100,872	6,147
13 Curriculum & Instructional Staff Development	25,000	283,027	246,127	36,900
21 Instructional Leadership	228,499	477,570	459,494	18,076
23 School Leadership	1,245,489	1,649,925	1,628,673	21,252
31 Guidance, Counseling, & Evaluation Services	356,260	432,543	406,115	26,428
33 Health Services	286,260	284,950	276,296	8,654
34 Transportation	99,648	20,000	16,170	3,830
35 Food Service	1,705,510	954,428	952,243	2,185
36 Extracurricular	87,538	628,770	544,933	83,837
41 General Administration	681,016	933,705	920,895	12,810
51 Plant Maintenance	3,855,907	3,749,731	3,637,023	112,708
52 Security & Monitoring Services	171,686	203,153	199,591	3,562
53 Data Processing Services	364,081	951,090	302,351	648,739
61 Community Services	261,721	291,470	289,587	1,883
71 Debt Service	387,750	146,107	306,798	(160,691)
81 Fundraising	39,600	23,422	22,740	682
Total Expenses	<u>21,783,896</u>	<u>22,843,191</u>	<u>22,169,380</u>	<u>673,811</u>
CHANGE IN NET ASSETS	<u>953,852</u>	<u>(832,842)</u>	<u>356,879</u>	<u>1,189,721</u>
NET ASSETS, BEGINNING	<u>(1,037,273)</u>	<u>(1,037,273)</u>	<u>(1,037,273)</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$(83,421)</u>	<u>\$(1,870,115)</u>	<u>\$(680,394)</u>	<u>\$ 1,189,721</u>

See independent auditors' report and notes to financial statements.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

BUDGET COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

	Budget Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUE				
Local Revenue:				
5740 Other Local Revenue	\$ -	\$ -	\$ 34,085	\$ 34,085
Total Local Revenue	-	-	34,085	34,085
Total Revenue	\$ -	\$ -	\$ 34,085	\$ 34,085
EXPENSES				
11 Instructional	\$ -	\$ -	\$ 11,581	\$(11,581)
36 Extracurricular	-	-	74,518	(74,518)
41 General Administration	-	-	42,816	(42,816)
51 Plant Maintenance	-	-	3,989	(3,989)
Total Expenses	-	-	132,904	(132,904)
CHANGE IN NET ASSETS	-	-	(98,819)	(98,819)
NET ASSETS, BEGINNING	(4,392)	(4,392)	(4,392)	-
NET ASSETS, END OF YEAR	\$(4,392)	\$(4,392)	\$(103,211)	\$(98,819)

See independent auditors' report and notes to financial statements.

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COMPLIANCE AND INTERNAL CONTROL SECTION

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Trustees
International American Education Federation, Inc.
Richardson, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of International American Education Federation, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered International American Education Federation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of International American Education Federation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of International American Education Federation, Inc.'s internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs, Item 2014-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

International American Education Federation, Inc.'s Response to Findings

International American Education Federation, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. International American Education Federation, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Pattillo, Brown + Hill, L.L.P.

Waco, Texas
January 14, 2015



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
International American Education Federation, Inc.
Richardson, Texas

Report on Compliance for Each Major Federal Program

We have audited International American Education Federation, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of International American Education Federation, Inc.'s major federal programs for the year ended August 31, 2014. International American Education Federation, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of International American Education Federation, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 International American Education Federation, Inc.'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 on compliance for each major federal program. However, our audit does not provide a legal determination of International American Education Federation, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, International American Education Federation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

Report on Internal Control Over Compliance

Management of International American Education Federation, Inc., is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered International American Education Federation, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of International American Education Federation, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, Item 2014-001, to be a significant deficiency.

International American Education Federation, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. International American Education Federation, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pattillo, Brown + Hill, L.L.P.

Waco, Texas
January 14, 2015

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2014

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed through the Texas Education Agency</u>			
School Breakfast Program	10.553	71401401	\$ 44,008
School Breakfast Program	10.553	71401301	5,493
National School Lunch Program	10.555	71301401	432,698
National School Lunch Program	10.555	71301301	<u>51,412</u>
Subtotal Child Nutrition Cluster			<u>533,611</u>
Total Passed through the Texas Education Agency			<u>533,611</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>533,611</u>
U.S. DEPARTMENT OF EDUCATION			
<u>Passed through the Texas Education Agency</u>			
IDEA Part - B, Formula	84.027	14660001057848600	<u>311,645</u>
Subtotal Idea, Part-B Cluster			<u>311,645</u>
Total Passed through the Texas Education Agency			<u>311,645</u>
<u>Passed through Region 10 Education Service Center</u>			
ESEA Title I, Part A	84.010A		298,860
Title II, Part A, Teacher & Principal Training	84.367A		74,659
Title III, LEP	84.365		<u>26,434</u>
Total Passed through Region 10 Education Service Center			<u>399,953</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>711,598</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>1,245,209</u>

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

AUGUST 31, 2014

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of International American Education Federation, Inc. The Corporation's reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The accrual basis of accounting is described in Note I of the financial statements.

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2014

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? 2014-001

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? 2014-001

Type of auditors' report issued on compliance
for major programs

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with Section
510(a) of OMB Circular A-133?

None

Identification of major programs:

CFDA Number(s)

10.553, 10.555

84.027

Name of Federal Program or Cluster:

Child Nutrition Cluster

IDEA Part B, Formula

Dollar threshold used to distinguish between Type A
and Type B programs

\$300,000

Auditee qualified as low-risk auditee?

No

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Item 2014-001

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
FOR THE YEAR ENDED AUGUST 31, 2014

Findings and Questioned Costs for Federal Awards

Federal Grantor: U.S. Department of Education
U.S. Department of Agriculture

Program: Child Nutrition Cluster, CFDA 10.553 and 10.555
IDEA Part B, CFDA 84.027

Compliance Requirements: Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Procurements and Supervision and Debarment

Item 2014-001

Condition: We noted instances of the Organization not adhering to the purchasing policies that have been adopted and approved by the Organization. The Organization's purchasing policies require approved purchase orders for all nonrecurring expenditures (i.e. utilities) except payroll.

Effect: Without approved purchase orders, there is a chance that a purchase could be made that violates the purchasing policies or an unauthorized purchase could be made.

Cause: This is the first full operating year for the Organization. The controls and policies are new to the Organization and were not always communicated to Organization personnel in a timely manner. There were transactions that occurred as startup expenditures that did not include an approved purchase order. A lot of these transactions involved reimbursements for minor employee reimbursements. The Organization also allowed signed contracts that were approved by appropriate Organization personnel.

Recommendation: Although the Organization outsourced its accounts payable functions and had mitigating controls over material disbursements, standard procedures over all purchases could use improvement. The size of the entity also makes material disbursements stand out to make sure that those are correct. We recommend the Organization review its purchasing procedures and make sure that all transactions are addressed and a system of disbursement is improved. Once the purchasing policy has been updated, the Organization needs to make sure that all employees are aware to the purchasing guidelines are verify that they are being followed prior to making a disbursement.

Management's Response: Management has put in place standard procedures over all purchases in the form of a Fiscal Manual that was approved by out Board of Directors on July 23, 2014. The Fiscal Manual was amended and approved by the Board on September 17, 2014. In order to make sure that all transactions are addressed Management will conduct planning and review sessions on an annual basis to review the Fiscal Manual and recommend to the Board any changes that are deemed necessary.

**Contact Person Responsible
For Correction Action:**

Jerry McCreight, CFO

Anticipated Completion

Date:

March 31, 2015

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2014

None.