

**INTERNATIONAL AMERICAN  
EDUCATION FEDERATION, INC.**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
AUGUST 31, 2017**

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# INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

CERTIFICATE OF BOARD

AUGUST 31, 2017

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, 2017, at a meeting of the governing body of the charter holder on the 25<sup>th</sup> day of January, 2018.

  
\_\_\_\_\_  
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, 2017, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

### ***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, 2017, 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 21 through 32 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, is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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.



In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018, 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 24, 2018

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GENERAL PURPOSE FINANCIAL STATEMENTS

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# INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

## STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2017

### ASSETS

	<u>2017</u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 21,007,669
Due from other governments	10,837,580
Accounts receivable, net	404,278
Deferred expense	759,086
Other current assets	9,971
Total Current Assets	<u>33,018,584</u>
Capitalized bond issuance costs, net	<u>714,374</u>
<b>PROPERTY AND EQUIPMENT</b>	
Land	9,433,537
Building and improvements	79,431,329
Furniture and equipment	13,490,476
Vehicles	1,357,643
Less accumulated depreciation	<u>( 10,231,760)</u>
Total Property and Equipment, net	<u>93,481,225</u>
Total Assets	<u>\$ 127,214,183</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 3,930,103
Due to other governments	323,380
Deferred revenue	2,825,928
Accrued wages payable	5,788,674
Payroll deductions and withholdings	596,884
Accrued expenses	499,920
Other liabilities	4,550,000
Current portion of long-term debt	<u>5,739,259</u>
Total Current Liabilities	<u>24,254,148</u>
<b>LONG-TERM LIABILITIES</b>	
Long-term debt	<u>114,610,928</u>
Total Long-Term Liabilities	<u>114,610,928</u>
Total Liabilities	<u>138,865,076</u>
<b>NET ASSETS</b>	
Unrestricted	( 11,754,555)
Temporarily restricted	<u>103,662</u>
Total Net Assets	<u>( 11,650,893)</u>
Total Liabilities and Net Assets	<u>\$ 127,214,183</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, 2017

	Unrestricted	Temporarily Restricted	Totals 2017
<b>REVENUE</b>			
<b>Local Revenue:</b>			
Foundations, other non-profit organizations, gifts, and bequests	\$ 17,535	\$ 248,225	\$ 265,760
SSA-Local revenues from member districts	1,540,482	1,088,394	2,628,876
Food service activity	-	858,538	858,538
Interest, dividends, gains, and losses	67,716	-	67,716
Athletic activities	6,515	-	6,515
Enterprising services revenue	14,939	-	14,939
Other revenue from local sources	2,446,225	-	2,446,225
Total local revenue	4,093,412	2,195,157	6,288,569
<b>State Program Revenue:</b>			
Per capita apportionment	-	2,031,117	2,031,117
Foundation school program act revenue	-	84,417,766	84,417,766
State program revenue distributed by TEA	-	1,684,847	1,684,847
State program revenue distributed by State of Texas Government Agency	-	750	750
Total state program revenue	-	88,134,480	88,134,480
<b>Federal Program Revenue:</b>			
National school breakfast and lunch program	-	2,141,592	2,141,592
Federal program revenue distributed by TEA	-	2,952,647	2,952,647
Total federal program revenue	-	5,094,239	5,094,239
Net assets released from restrictions:			
Restrictions satisfied by payments	95,368,812	( 95,368,812)	-
Total revenue	99,462,224	55,064	99,517,288
<b>EXPENSES</b>			
<b>Program Services:</b>			
Instruction	51,631,269	-	51,631,269
Instruction resources and media	436,207	-	436,207
Curriculum and instructional staff development	1,991,680	-	1,991,680
Instructional leadership	619,075	-	619,075
School leadership	6,744,589	-	6,744,589
Guidance, counseling, and evaluating services	2,943,774	-	2,943,774
Health services	1,097,752	-	1,097,752
Student transportation	629,009	-	629,009
Food services	3,183,242	-	3,183,242
Extracurricular activities	2,383,676	-	2,383,676
General administration	5,482,859	-	5,482,859
Facilities maintenance and operations	17,586,584	-	17,586,584
Security and monitoring services	1,010,336	-	1,010,336
Data processing	2,863,314	-	2,863,314
Community services	1,493,246	-	1,493,246
Debt service	6,725,092	-	6,725,092
Total expenses	106,821,704	-	106,821,704
<b>CHANGE IN NET ASSETS</b>	( 7,359,480)	55,064	( 7,304,416)
<b>NET ASSETS, BEGINNING, AS RESTATED</b>	( 4,395,075)	48,598	( 4,346,477)
<b>NET ASSETS, END OF YEAR</b>	\$( 11,754,555)	\$ 103,662	\$( 11,650,893)

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, 2017**

	<u>2017</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in net assets	\$( 7,304,416)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	5,230,322
Increase in due from TEA	( 6,484,860)
Decrease in accounts receivable	747,962
Increase in deferred expenses	( 759,086)
Increase in other current assets	( 9,971)
Increase in accounts payable	1,252,025
Increase in other liabilities	4,550,000
Increase in due to other governments	194,179
Increase in deferred revenue	445,739
Increase in wages payable	3,555,911
Increase in payroll deductions and withholdings	77,706
Increase in accrued expenses	<u>499,920</u>
Net Cash Provided by Operating Activities	<u>1,995,431</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of land, buildings, and equipment	( 8,032,298)
Net Cash Used by Investing Activities	<u>( 8,032,298)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Issuance of long-term debt	9,277,798
Principal payments on debt	<u>( 1,569,647)</u>
Net Cash Provided by Financing Activities	<u>7,708,151</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,671,284
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>19,336,385</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 21,007,669</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, 2017

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity and Corporate Operations

##### 1. Reporting Entity

International American Education Federation, Inc. (IAEF), (the Organization), 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 organization is governed by a Board of Directors comprised of up to 5 members. The Board of Directors is selected pursuant to the bylaws of the organization and has the authority to make decisions, appoint the chief executive officer of the organization, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the organization.

International Leadership of Texas – Global (Global), is a 501(c)(3) who's mission is to strengthen, enhance and support the advancement of IAEF by engaging in fundraising and other charitable activities. It also operates a private school to serve ninth through twelfth grades with a primary focus of offering a Chinese cultural exchange program for the benefit of students in Texas and China. Global partners with International Leadership of Texas open-enrollment charter schools to further support and facilitate cross cultural educational models and methods. Because of the close ties with IAEF, the financial statements of Global have been included in this report along with IAEF.

Since the organization 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 organization 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 organization 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. The local days, if not used, are forfeited at the end of each year.

## **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. PRIOR PERIOD ADJUSTMENT

Late in FY (fiscal year) 2015, International Leadership of Texas issued bonds for the purchase of four buildings that were on lease to purchase agreements. On July 23, 2015, all four property leases were amended to increase the monthly rent, which increased each property's corresponding purchase price under the option to purchase agreement. This led to the recorded amount of the buildings being overstated when booked in FY 2015, along with the overstatement of related depreciation expense and accumulated depreciation in FY 2016. In FY 2016, International Leadership of Texas received from the seller contributions of corresponding value to the increase in the properties' purchase prices, resulting in overstated local revenue in FY 2016. The net effect of these events led to a reduction in the carrying value of buildings and improvements (See Note V.) and beginning net assets of \$3,560,926 from \$(785,551) to \$(4,346,477).

## III. 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, 2017, 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.

## IV. INVESTMENTS

The Organization had no investments in marketable securities at August 31, 2017.

## V. CAPITAL ASSETS

Capital assets at August 31, 2017 were as follows:

	Balance 09/01/16	Additions	Deletions	Adjustments*	Balance 08/31/17
Land	\$ 9,433,537	\$ -	\$ -	\$ -	\$ 9,433,537
Building and improvements	83,103,863	-	-	( 3,672,534)	79,431,329
Vehicles	1,138,144	219,499	-	-	1,357,643
Furniture and equipment (capital leases)	5,677,677	7,812,799	-	-	13,490,476
Accumulated depreciation	( 5,214,041)	( 5,129,327)	-	111,608	( 10,231,760)
	<u>\$ 94,139,180</u>	<u>\$ 2,902,971</u>	<u>\$ -</u>	<u>\$ ( 3,560,926)</u>	<u>\$ 93,481,225</u>

\* Please see note II.

## **VI. DEFINED BENEFIT PENSION PLAN**

### **Plan Description**

The Organization participates in a cost-sharing multi-employer defined benefit pension that has a special funding situation. The Charter school is a legally separate entity from the State of Texas and other participants of the plan. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contributions rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the TRS plan. Assets contributed by one charter school or independent school district may be used for the benefit of an employee of another charter school or school district. Any unfunded obligations are passed along to other charter schools and school districts.

### **Benefits Provided**

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on the date of employment, or if the member was grandfathered in under a previous rule. There are not automatic post-employment benefit changes; including automatic COLAs (cost of living adjustment). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Information with respect to the TRS Plan is shown in the following table:

Name of Plan	Federal Employer ID/Plan Number	Certified Zone Status	Expiration Date of Collective Bargaining Agreement	Improvement or Rehabilitation Plan	Surcharge Paid	Contributions Made 2016-2017
Teacher Retirements System of Texas	n/a	Unknown	n/a	n/a	\$ 18,172	\$ 1,103,466
Total contributions made					\$ 18,172	\$ 1,103,466

Notes to the table:

1. Certified Zone Status (as defined by the Pension Protection Act) represents the level at which the plan is funded. Details of the funding status for the latest measurement date of December 31, 2016 are as follows:
  - i. Total plan assets - \$152,925,647,396.
  - ii. Accumulated benefit obligations - \$207,410,708,945
  - iii. The TRS Plan is 79.70% funded.
2. There is no collective-bargaining agreement.
3. Based on the audited Government Accounting Standards Board 68 allocation schedules from the TRS website as of August 31, 2016, the year-end of the TRS Plan, contributions made to the TRS Plan did not represent more than 5% of the total contributions received by the TRS Plan.
4. Contribution Rates:

	2017	2016
Member	7.7%	7.2%
State	6.8%	6.8%
Employer	6.8%	6.8%

There have been no changes that would affect the comparison of employer contributions from year to year. The TRS Plan's annual financial report and other required disclosure information are available by writing the General Accounting Department, Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698.

In addition, employees must contribute 0.50% of their salary and the Organization must contribute 0.55% of the salary of each active employee to TRS-Care (The TRS health plan for retired employees). The total amount contributed to TRS-Care for the year was \$538,327 which is equal to the employees' contributions and the Organization's required contributions for the year.



## **VII. HEALTH CARE COVERAGE**

During the year ended August 31, 2017, full-time employees of the Organization were covered by a health insurance plan (the Plan). The Organization contributed \$341 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**

The Organization 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. ECONOMIC DEPENDENCY**

During the year ended August 31, 2017, the Organization earned revenue of \$88,134,480 from the Texas Education Agency (TEA). These amounts constitute approximately 84.7% 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.

## **X. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets for the year ending August 31, 2017 consisted of the following:

	2017
Road Scholars	\$ 54,110
Ed Rachel Foundation Grant	49,552
	<u>\$ 103,662</u>

## **XI. DEFERRED REVENUE**

Deferred revenue at August 31, 2017 consisted of the following:

	2017
Foreign student tuition/housing	\$ 2,825,928

## XII. LONG-TERM DEBT

Long-term debt at August 31, 2017 consisted of the following:

	2017
Bonds and capital leases consist of the following:	
\$105,680,000 Education Revenue Bonds Series A, issued by Clifton Higher Education Finance Corporation. The bonds bear interest at a rate of 4.625%-5.75% and are interest only until August of 2020. The bonds mature in August of 2045. The bonds were used to purchase school buildings. The bonds are secured by real property.	\$ 105,680,000
\$5,360,000 Taxable Education Revenue Bonds Series B, issued by Clifton Higher Education Finance Corporation. The bonds bear interest at a rate of 6.125% and are interest only until August of 2018. The bonds mature in August of 2020. The bonds were used to purchase school buildings. The bonds are secured by real property.	5,360,000
\$22,500 capital lease, issued by C2M Tech. The lease bears interest at a rate of 6.5% and is due in monthly installments of \$689. The capital lease expires in July of 2018. The capital lease was used for lawn equipment. The capital lease is secured by the equipment.	8,634
\$45,686 capital lease, issued by C2M Tech for computer equipment. The lease bears interest at a rate of 8.25% and is due in monthly installments of \$1,437. The capital lease expires in December of 2018. The capital lease is secured by the equipment.	22,979
\$563,064 capital lease, issued by C2M Tech for computer equipment. The lease bears interest at a rate of 10.00% and is due in monthly installments of \$11,963. The capital lease expires in September of 2018. The capital lease is secured by the equipment.	388,290
\$2,196,924 technology loan, issued by C2M Tech for instructional materials. The lease bears interest at a rate of 9.50% and is due in monthly installments of \$46,139. The capital lease expires in August of 2021. The capital lease is secured by the instructional materials.	1,867,886
\$434,828 auto loan, issued by Daimler Truck Financial for four buses. The loan bears interest at a rate of 4.85% and is due in monthly installments of \$6,977. The loan expires in May of 2022. The capital lease is secured by the buses.	354,423
\$434,828 auto loan, issued by Daimler Truck Financial for four buses. The loan bears interest at a rate of 4.85% and is due in monthly installments of \$6,984. The loan expires in June of 2022. The capital lease is secured by the buses.	359,986
\$91,866 auto loan, issued by Interbank for two Suburbans. The loan bears interest at a rate of 5.832% and is due in monthly installments of \$1,769. The loan expires in January of 2022. The loan is secured by the Suburbans.	65,501
\$23,792 auto loan, issued by Toyota Financial Services for a 2016 Toyota Scion. The loan bears interest at a rate of 0% and is due in monthly installments of \$397. The loan expires in March of 2021. The loan is secured by the Scion.	17,051
\$22,108 auto loan, issued by Ford Credit for a 2015 Ford Transit Cargo Van. The loan bears interest at a rate of 5.49% and is due in monthly installments of \$514. The loan expires in June of 2020. The loan is secured by the van.	16,161
\$28,614 auto loan, issued by Ford Credit for a 2015 Ford F-150 Truck. The loan bears interest at a rate of 5.49% and is due in monthly installments of \$665. The loan expires in June of 2020. The loan is secured by the truck.	20,915
\$1,500,000 capital lease, issued by C2M Tech for computer equipment for the JROTC building. The lease bears interest at a rate of 9.00% and is due in monthly installments of \$68,527. The capital lease expires in August of 2019. The capital lease is secured by the equipment. (New)	1,500,000

\$35,730 capital lease, issued by C2M Tech for a 2017 Genie GS2632 Scissorlift. The lease bears interest at a rate of 7.50% and is due in monthly installments of \$716. The capital lease expires in July of 2022. The capital lease is secured by the equipment. (New)	35,730
\$1,507,661 capital lease, issued by C2M Tech for computer equipment. The lease bears interest at a rate of 9.00% and is due in monthly installments of \$27,176. The capital lease expires in August of 2022. The capital lease is secured by the equipment. (New)	1,326,407
\$1,457,128 capital lease, issued by C2M Tech for computer equipment. The lease bears interest at a rate of 9.50% and is due in monthly installments of \$30,602. The capital lease expires in September of 2022. The capital lease is secured by the equipment. (New)	1,238,891
\$165,000 auto loan, issued by Susquehanna Commercial Finance, Inc. for 6 2016-2017 Ford vehicles. The loan bears interest at a rate of 5.02% and is due in monthly installments of \$3,110. The loan expires in January of 2022. The loan is secured by the vehicles. (New)	147,783
\$148,800 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 6.491% and is due in monthly installments of \$4,535. The capital lease expires in August of 2019. The capital lease is secured by the equipment. (New)	101,823
\$324,458 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 6.490% and is due in monthly installments of \$9,889. The capital lease expires in October of 2019. The capital lease is secured by the equipment. (New)	239,262
\$341,133 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 6.490% and is due in monthly installments of \$10,397. The capital lease expires in October of 2019. The capital lease is secured by the equipment. (New)	251,559
\$355,758 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 6.490% and is due in monthly installments of \$10,844. The capital lease expires in October of 2019. The capital lease is secured by the equipment. (New)	262,344
\$325,502 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 6.490% and is due in monthly installments of \$9,921. The capital lease expires in October of 2019. The capital lease is secured by the equipment. (New)	240,032
\$591,772 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 6.490% and is due in monthly installments of \$18,037. The capital lease expires in October of 2019. The capital lease is secured by the equipment. (New)	436,385
\$17,550 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 6.691% and is due in monthly installments of \$535. The capital lease expires in January of 2020. The capital lease is secured by the equipment. (New)	14,286
\$108,837 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 6.250% and is due in monthly installments of \$3,306 The capital lease expires in April of 2020. The capital lease is secured by the equipment. (New)	108,837
\$356,304 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 4.930% and is due in annual installments of \$95,707 The capital lease expires in August of 2021. The capital lease is secured by the equipment. (New)	356,304

\$356,304 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 4.930% and is due in annual installments of \$95,707 The capital lease expires in August of 2021. The capital lease is secured by the equipment. (New)	356,304
\$356,096 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 4.930% and is due in annual installments of \$95,701 The capital lease expires in August of 2021. The capital lease is secured by the equipment. (New)	356,096
\$356,096 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 4.930% and is due in annual installments of \$95,701 The capital lease expires in August of 2021. The capital lease is secured by the equipment. (New)	356,096
\$973,719 capital lease, issued by Dell Financial Services for computer equipment. The lease bears interest at a rate of 4.930% and is due in annual installments of \$261,676 The capital lease expires in August of 2021. The capital lease is secured by the equipment. (New)	<u>973,719</u>
Total Debt	<u>122,463,684</u>
Less Unamortized Discount	<u>( 2,113,497)</u>
Less Current Portion of Long-term Debt	<u>( 5,739,259)</u>
Total Long-term Debt	<u>\$ 114,610,928</u>

Future maturities of long-term debt at August 31, 2017 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 5,739,259	\$ 6,882,542	\$ 12,621,801
2019	5,365,705	6,490,614	11,856,319
2020	4,215,261	6,151,752	10,367,013
2021	3,539,726	5,877,724	9,417,450
2022	2,754,073	5,679,154	8,433,227
2023-2027	12,974,660	26,689,263	39,663,923
2028-2032	16,555,000	23,103,669	39,658,669
2033-2027	21,565,000	18,096,225	39,661,225
2038-2042	28,450,000	11,215,950	39,665,950
2043-2047	<u>21,305,000</u>	<u>2,495,500</u>	<u>23,800,500</u>
Total	<u>\$ 122,463,684</u>	<u>\$ 112,682,393</u>	<u>\$ 235,146,077</u>

### **XIII. LEASE COMMITMENTS**

The Organization 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>	
2018	\$ 22,229,591
2019	23,027,370
2020	23,535,462
2021	23,721,733
2022	24,281,893
Thereafter	<u>609,097,279</u>
Total	<u>\$ 725,893,328</u>

Operating lease expenses were approximately \$8,140,100 for the year ended August 31, 2017.

The Financial Accounting Standards Board (FASB) has issued ASU 2016-02, Leases (Topic 842). Under this new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with generally accepted accounting principles (GAAP), the recognition, measurement, and presentation of the expenses and cash flows arising from a lease by lessee will depend on its classification as a finance or operating lease. However, unlike current GAAP – which requires only capital leases to be recognized on the balance sheet – the new ASU will require both types of leases to be recognized on the balance sheet. The effective date for this new ASU will be for annual periods beginning after December 15, 2019. The effects on the Organization due to the new ASU are not able to currently be determined.

### **XIV. 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.

## **XV. OTHER LIABILITIES**

During fiscal year 2017, International Leadership of Texas received monetary payments in the amount of \$4,550,000 from two organizations. These funds were deemed to be advanced for startup costs to fund the operations of six new schools that will open in fiscal year 2018. These funds will be paid back as a part of operating lease payments in future periods. Therefore, these amounts will be treated as current liability and reduced as part of upcoming lease payments on the new school facilities.

## **XVI. STARTUP COSTS**

Included in the current years expenses are startup costs related to six new schools that were brought online at the beginning of fiscal year 2018. These costs consist mainly of salaries, computers, instructional materials, supplies and advertising costs that are necessary for the school to be ready to start on the first day of classes. There is no revenue recorded in FY17 to offset any of these costs which were financed through funding received from two organizations. (See footnote XV Other Liabilities).

## **XVII. SUBSEQUENT EVENTS**

International Leadership of Texas Charter School is set to open two additional campuses starting with the 2017 and 2018 school year. These will create additional revenues along with additional expenses as well as additional costs for operations.

Subsequent to the fiscal year end, the Organization entered into six capital leases and one loan with various financial institutions secured by technology equipment, furniture, fixtures and vehicles. The six leases require annual installments ranging from \$6,477 to \$64,580 and carry interest rates ranging from 4.93% to 6.25%. These leases expire in late 2020. The loan requires annual installments of \$135,305 with an interest rate of 5.49%, expiring October 2023.

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**SPECIFIC-PURPOSE FINANCIAL STATEMENTS**

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# INTERNATIONAL LEADERSHIP OF TEXAS

## STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2017

### ASSETS

	<u>2017</u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 19,682,520
Due from TEA	10,837,580
Accounts receivable, net	181,276
Other current assets	<u>9,971</u>
Total Current Assets	<u>30,711,347</u>
Capitalized bond issuance costs, net	<u>714,374</u>
<b>PROPERTY AND EQUIPMENT</b>	
Land	9,433,537
Building and improvements	79,431,329
Furniture and equipment	13,490,476
Vehicles	1,357,643
Less accumulated depreciation	<u>( 10,231,760)</u>
Total Property and Equipment, net	<u>93,481,225</u>
Total Assets	<u>\$ 124,906,946</u>

### LIABILITIES

#### CURRENT LIABILITIES

Accounts payable	\$ 3,515,960
Due to other governments	323,380
Deferred revenue	701,730
Accrued wages payable	5,788,674
Payroll deductions and withholdings	592,414
Accrued expenses	499,920
Other liabilities	4,550,000
Current portion of long-term debt	<u>5,739,259</u>
Total Current Liabilities	<u>21,711,337</u>

#### LONG-TERM LIABILITIES

Long-term debt	<u>114,610,928</u>
Total Long-Term Liabilities	<u>114,610,928</u>
Total Liabilities	<u>136,322,265</u>

#### NET ASSETS

Unrestricted	( 11,518,981)
Temporarily restricted	<u>103,662</u>
Total Net Assets	<u>( 11,415,319)</u>
Total Liabilities and Net Assets	<u>\$ 124,906,946</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, 2017**

**ASSETS**

	<u>2017</u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 1,325,149
Accounts receivable, net	223,002
Prepays	<u>759,086</u>
 Total Current Assets	 <u>2,307,237</u>
 Total Assets	 \$ <u><u>2,307,237</u></u>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	\$ 414,143
Deferred revenue	2,124,198
Payroll deductions and withholdings	<u>4,470</u>
 Total Current Liabilities	 <u>2,542,811</u>
 Total Liabilities	 <u>2,542,811</u>

**NET ASSETS**

Unrestricted	<u>( 235,574)</u>
Total Net Assets	<u>( 235,574)</u>
Total Liabilities and Net Assets	\$ <u><u>2,307,237</u></u>

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# INTERNATIONAL LEADERSHIP OF TEXAS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2017

	Unrestricted	Temporarily Restricted	Totals 2017
<b>REVENUE</b>			
<b>Local Revenue:</b>			
Foundations, other non-profit organizations, gifts, and bequests	\$ -	\$ 248,225	\$ 248,225
SSA-Local revenues from member districts	-	1,088,394	1,088,394
Food service activity	-	858,538	858,538
Interest, dividends, gains, and losses	67,716	-	67,716
Athletic activities	6,515	-	6,515
Enterprising services revenue	14,939	-	14,939
Other revenue from local sources	2,074,139	-	2,074,139
Total local revenue	2,163,309	2,195,157	4,358,466
<b>State Program Revenue:</b>			
Per capita apportionment	-	2,031,117	2,031,117
Foundation school program act revenue	-	84,417,766	84,417,766
State program revenue distributed by TEA	-	1,684,847	1,684,847
State program revenue distributed by state of Texas government agency	-	750	750
Total state program revenue	-	88,134,480	88,134,480
<b>Federal Program Revenue:</b>			
National school breakfast and lunch program	-	2,141,592	2,141,592
Federal program revenue distributed by TEA	-	2,952,647	2,952,647
Total federal program revenue	-	5,094,239	5,094,239
Net assets released from restrictions:			
Restrictions satisfied by payments	95,368,812	( 95,368,812)	-
Total revenue	97,532,121	55,064	97,587,185
<b>EXPENSES</b>			
<b>Program Services:</b>			
Instruction	51,147,008	-	51,147,008
Instruction resources and media	436,207	-	436,207
Curriculum and instructional staff development	1,991,680	-	1,991,680
Instructional leadership	619,075	-	619,075
School leadership	6,744,589	-	6,744,589
Guidance, counseling, and evaluating services	2,943,774	-	2,943,774
Health services	1,097,752	-	1,097,752
Student transportation	629,009	-	629,009
Food services	3,183,242	-	3,183,242
Extracurricular activities	2,383,676	-	2,383,676
General administration	3,926,689	-	3,926,689
Facilities maintenance and operations	17,586,584	-	17,586,584
Security and monitoring services	1,010,336	-	1,010,336
Data processing	2,863,314	-	2,863,314
Community services	1,493,246	-	1,493,246
Debt service	6,725,092	-	6,725,092
Total expenses	104,781,273	-	104,781,273
<b>CHANGE IN NET ASSETS</b>	( 7,249,152)	55,064	( 7,194,088)
<b>NET ASSETS, BEGINNING, AS RESTATED</b>	( 4,269,829)	48,598	( 4,221,231)
<b>NET ASSETS, END OF YEAR</b>	\$( 11,518,981)	\$ 103,662	\$( 11,415,319)

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, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2017</u>
<b>REVENUE</b>			
<b>Local Revenue:</b>			
Foundations, other non-profit organizations, gifts, and bequests	\$ 17,535	\$ -	\$ 17,535
SSA-Local revenues from member districts	1,540,482	-	1,540,482
Other revenue from local sources	<u>372,086</u>	<u>-</u>	<u>372,086</u>
Total local revenue	<u>1,930,103</u>	<u>-</u>	<u>1,930,103</u>
 Total revenue	 <u>1,930,103</u>	 <u>-</u>	 <u>1,930,103</u>
<b>EXPENSES</b>			
<b>Program Services:</b>			
Instruction	484,261	-	484,261
General administration	<u>1,556,170</u>	<u>-</u>	<u>1,556,170</u>
 Total expenses	 <u>2,040,431</u>	 <u>-</u>	 <u>2,040,431</u>
<b>CHANGE IN NET ASSETS</b>	<u>( 110,328)</u>	<u>-</u>	<u>( 110,328)</u>
<b>NET ASSETS, BEGINNING</b>	<u>( 125,246)</u>	<u>-</u>	<u>( 125,246)</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$( 235,574)</u></u>	<u><u>\$ -</u></u>	<u><u>\$( 235,574)</u></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, 2017

	<u>2017</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in net assets	\$( 7,194,088)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	5,230,322
Increase in due from TEA	( 6,484,860)
Decrease in accounts receivable	25,830
Increase in other current assets	( 9,971)
Increase in accounts payable	1,943,214
Increase in other liabilities	4,550,000
Increase in due to other governments	194,179
Decrease in deferred revenue	( 460,648)
Increase in wages payable	3,555,911
Increase in payroll deductions and withholdings	73,693
Increase in accrued expenses	<u>499,920</u>
Net Cash Provided by Operating Activities	<u>1,923,502</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of land, buildings, and equipment	( 8,032,298)
Net Cash Used by Investing Activities	<u>( 8,032,298)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Issuance of long-term debt	9,277,798
Principal payments on debt	( 1,569,647)
Net Cash Provided by Financing Activities	<u>7,708,151</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,599,355
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>18,083,165</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 19,682,520</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, 2017**

	<u>2017</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in net assets	\$( 110,328)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease in accounts receivable	722,132
Increase in deferred expenses	( 759,086)
Decrease in accounts payable	( 691,189)
Increase in deferred revenue	906,387
Increase in payroll deductions and withholdings	<u>4,013</u>
Net Cash Provided by Operating Activities	<u>71,929</u>
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	 <u>1,253,220</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ <u>1,325,149</u></b>

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# INTERNATIONAL LEADERSHIP OF TEXAS

## SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2017

EXPENSES	<u>2017</u>
6100 Payroll Costs	\$ 61,856,325
6200 Professional & Contract Services	21,090,452
6300 Supplies & Materials	7,589,525
6400 Other Operating Costs	7,519,879
6500 Debt Service	<u>6,725,092</u>
Total Expenses	<u>\$ 104,781,273</u>

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF EXPENSES**

**FOR THE YEAR ENDED AUGUST 31, 2017**

<b>EXPENSES</b>	<u>2017</u>
6100 Payroll Costs	\$ 455,311
6200 Professional & Contract Services	251,245
6300 Supplies & Materials	45,685
6400 Other Operating Costs	<u>1,288,190</u>
Total Expenses	<u>\$ 2,040,431</u>

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# INTERNATIONAL LEADERSHIP OF TEXAS

## SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2017

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ 519,788	\$ 8,913,749	\$ -
1520 Buildings and Improvements	4,376,666	75,054,663	-
1531 Vehicles	74,806	1,282,837	-
1559 Furniture and Equipment (Capital Leases)	743,325	12,747,151	-
1570 Accumulated Depreciation	<u>( 563,770)</u>	<u>( 9,667,990)</u>	<u>-</u>
Total Property and Equipment	<u>\$ 5,150,815</u>	<u>\$ 88,330,410</u>	<u>\$ -</u>

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF CAPITAL ASSETS**

**FOR THE YEAR ENDED AUGUST 31, 2017**

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ -	\$ -
1520 Buildings and Improvements	-	-	-
1541 Vehicles	-	-	-
Total Property and Equipment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**INTERNATIONAL LEADERSHIP OF TEXAS**  
**BUDGET COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

	Budget Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUE</b>				
<b>Local Support:</b>				
5722 SSA-Local revenues from member districts	\$ 960,000	\$ 960,000	\$ 1,088,394	\$ 128,394
5740 Other local revenue	3,722,473	10,372,473	2,390,080	( 7,982,393)
5750 Food service, co-curricular, enterprising Services or activities	<u>548,072</u>	<u>548,072</u>	<u>879,992</u>	<u>331,920</u>
Total local revenue	<u>5,230,545</u>	<u>11,880,545</u>	<u>4,358,466</u>	<u>( 7,522,079)</u>
<b>State Program Revenue:</b>				
5810 Foundation school program	90,164,366	84,997,495	84,417,766	( 579,729)
5811 Per capita apportionment	781,158	781,158	2,031,117	1,249,959
5820 State program revenue distributed by TEA	1,487,124	1,487,124	1,684,847	197,723
5839 State revenues from state of Texas Government agency	<u>-</u>	<u>5,750</u>	<u>750</u>	<u>( 5,000)</u>
Total state program revenue	<u>92,432,648</u>	<u>87,271,527</u>	<u>88,134,480</u>	<u>862,953</u>
<b>Federal Program Revenue:</b>				
5920 Federal program revenue distributed by TEA	<u>5,661,790</u>	<u>6,611,790</u>	<u>5,094,239</u>	<u>( 1,517,551)</u>
Total federal program revenue	<u>5,661,790</u>	<u>6,611,790</u>	<u>5,094,239</u>	<u>( 1,517,551)</u>
Total revenue	<u>103,324,983</u>	<u>105,763,862</u>	<u>97,587,185</u>	<u>( 8,176,677)</u>
<b>EXPENSES</b>				
11 Instructional	53,624,144	52,126,571	51,147,008	979,563
12 Instructional resources & media services	222,859	526,581	436,207	90,374
13 Curriculum & instructional staff development	1,866,584	2,356,908	1,991,680	365,228
21 Instructional leadership	408,133	709,071	619,075	89,996
23 School leadership	5,230,810	6,902,426	6,744,589	157,837
31 Guidance, counseling, & evaluation services	2,074,712	3,031,089	2,943,774	87,315
33 Health services	1,057,388	1,173,402	1,097,752	75,650
34 Transportation	271,500	733,447	629,009	104,438
35 Food service	2,348,743	3,498,743	3,183,242	315,501
36 Extracurricular	2,675,652	2,616,138	2,383,676	232,462
41 General administration	2,244,002	3,936,193	3,926,689	9,504
51 Facilities maintenance and operations	20,039,964	17,765,458	17,586,584	178,874
52 Security & monitoring service	846,043	1,051,245	1,010,336	40,909
53 Data processing services	1,036,309	2,713,855	2,863,314	( 149,459)
61 Community services	1,183,518	1,670,768	1,493,246	177,522
71 Debt service	<u>8,262,924</u>	<u>6,900,000</u>	<u>6,725,092</u>	<u>174,908</u>
Total expenses	<u>103,393,285</u>	<u>107,711,895</u>	<u>104,781,273</u>	<u>2,930,622</u>
<b>CHANGE IN NET ASSETS</b>	<u>( 68,302)</u>	<u>( 1,948,033)</u>	<u>( 7,194,088)</u>	<u>( 5,246,055)</u>
<b>NET ASSETS, BEGINNING, AS RESTATED</b>	<u>( 4,221,231)</u>	<u>( 4,221,231)</u>	<u>( 4,221,231)</u>	<u>-</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$( 4,289,533)</u>	<u>\$( 6,169,264)</u>	<u>\$( 11,415,319)</u>	<u>\$( 5,246,055)</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, 2017**

	Budget Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUE</b>				
<b>Local Support:</b>				
5740 Other Local Revenue	\$ 2,000,000	\$ 2,000,000	\$ 1,930,103	\$ ( 69,897)
Total Revenue	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,930,103</u>	<u>( 69,897)</u>
<b>EXPENSES</b>				
11 Instructional	500,000	500,000	484,261	15,739
41 General Administration	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,556,170</u>	<u>( 56,170)</u>
Total Expenses	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,040,431</u>	<u>( 40,431)</u>
<b>CHANGE IN NET ASSETS</b>	<u>-</u>	<u>-</u>	<u>( 110,328)</u>	<u>( 110,328)</u>
<b>NET ASSETS, BEGINNING</b>	<u>( 125,246)</u>	<u>( 125,246)</u>	<u>( 125,246)</u>	<u>-</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ ( 125,246)</u></u>	<u><u>\$ ( 125,246)</u></u>	<u><u>\$ ( 235,574)</u></u>	<u><u>\$ ( 110,328)</u></u>

See independent auditors' report  
and notes to financial statements.

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COMPLIANCE AND INTERNAL CONTROL SECTION

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PATTILLO, BROWN & HILL, 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, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2018.

**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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses as described in the accompanying Schedule of Findings and Questioned Costs.

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. We consider the deficiencies described in the Schedule of Findings and Questioned Costs as items 2017-001 and 2017-002 to be material weaknesses.

### **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 responses to the findings identified in our audit are 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 24, 2018



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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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 *U.S. Office of Management and Budget (OMB) 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, 2017. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 identified in the summary of auditing results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2017.

### **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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-003 to be a material weakness.

International American Education Federation, Inc.'s response to the internal control over compliance findings identified in our audit are described in the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Patillo, Brown & Hill, L.L.P.*

Waco, Texas  
January 24, 2018

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED AUGUST 31, 2017**

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed through the Texas Education Agency</u>			
School Breakfast Program	10.553	71401601	\$ 22,958
School Breakfast Program	10.553	71401701	177,098
National School Lunch Program	10.555	71301601	182,993
National School Lunch Program	10.555	71301701	<u>1,675,370</u>
Total Passed through the Texas Education Agency			<u>2,058,419</u>
<u>Passed through Texas Department of Agriculture:</u>			
Commodities - Noncash Assistance	10.555	3001201	<u>83,173</u>
Total Passed through Texas Department of Agriculture			<u>83,173</u>
Total Child Nutrition Cluster			<u>2,141,592</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>2,141,592</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed through the Texas Education Agency</u>			
IDEA Part - B, Formula	84.027A	16660001057848600	<u>937,322</u>
Subtotal Idea, Part-B Cluster			<u>937,322</u>
LEP Summer School	84.369A	69551602	<u>3,495</u>
Subtotal LEP Summer School			<u>3,495</u>
Total Passed through the Texas Education Agency			<u>940,817</u>
<u>Passed through Region 10 Education Service Center</u>			
ESEA Title I, Part A	84.010A	17610101057950	1,616,053
Title II, Part A, Teacher & Principal Training	84.367A	17694501057950	239,804
Title III, LEP	84.365	17671001057950	<u>155,973</u>
Total Passed through Region 10 Education Service Center			<u>2,011,830</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>2,011,830</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ <u>5,094,239</u>

**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

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

**AUGUST 31, 2017**

**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.

**3. INDIRECT COST RATE**

The Organization did not elect to apply the 10% de minimis indirect cost rate.

**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED AUGUST 31, 2017**

**Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? 2017-001, 2017-002

Significant deficiency(ies) identified? None reported

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? 2017-003

Significant deficiency(ies) identified? None reported

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  
200.516(a) of Uniform Guidance?

2017-003

Identification of major programs:

CFDA Number(s)

10.553, 10.555

Name of Federal Program or Cluster:

Child Nutrition Cluster

84.027A, 84.073

Special Education Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

Yes

**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)**

**FOR THE YEAR ENDED AUGUST 31, 2017**

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

**Item 2017-001:**

<u>Condition:</u>	There were journal entries that were applied to the general ledger without the proper level of approval.
<u>Criteria:</u>	All non-system generated journal entries should be approved by management, in accordance with the Organization's procedures.
<u>Cause:</u>	The Organization did not follow their procedures regarding all non-standard journal entries. An accounting staff recorded journal entries that were not signed off on by management.
<u>Effect:</u>	The journal entry caused cash to be understated along with payables through these transactions. Instead of recording a liability, checks were back dated causing cash to be incorrectly stated along with current liabilities.
<u>Recommendation:</u>	The Organization should verify that proper procedures are followed in regard to the recording of journal entries.
<u>Management's Response:</u>	Management believes that the entries being referred to above were all related to check runs made during the month of September and October 2017. As this was our first time to close year end on our new software, Skyward, our accounting staff did not understand that when we were cutting checks for items set up as payables in FY17 the checks should be cut as of the current date and not the prior year end date. All of the necessary approvals had been completed during the check run process, however the procedure to properly state cash did not occur.

**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)**

**FOR THE YEAR ENDED AUGUST 31, 2017**

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

**Item 2017-002:**

<u>Condition:</u>	There were two instances of contributions that were received by the Organization in FY 2016 and FY 2017. Originally, these were recorded as revenue on the general ledger. However, these payments were funds given in advance for operation costs that would be later paid back through operation leases of the Organization's facilities.
<u>Criteria:</u>	Funds given in advance for operations should be recorded as liabilities and the liability should be reduced when payments on the facilities operating lease are recorded.
<u>Cause:</u>	There was not a full understanding of the basis of the transactions that resulted in them being recorded incorrectly.
<u>Effect:</u>	As a result of not properly recording these transactions, revenue was overstated.
<u>Recommendation:</u>	Each transaction that is recorded should be fully analyzed before recording to the general ledger. If a transaction is unusual or infrequent, the Organization should find guidance to verify that the entry and all of its elements are fully understood, and the accounting treatment of these entries is recorded properly.
<u>Management's Response:</u>	Management understands the need to fully analyze all transactions prior to recording to the general ledger. In the future, management will seek the advice of its financial advisor as well as its external auditors and its audit and finance committee prior to recording any transactions that are of an unusual nature or are infrequent.

**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED AUGUST 31, 2017**

**Findings and Questioned Costs for Federal Awards**

**Finding 2017-003**

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

Program: Child Nutrition Cluster – CFDA #10.553, 10.555  
Special Education Cluster – CFDA #84.027A, 84.173

Compliance Requirement: Procurement and Suspension and Debarment

Criteria: Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For all vendors paid \$25,000 or more and all subawards, the Federation must ensure the vendor or subrecipient is not suspended or debarred.

Condition: International American Education Federation, Inc. procured and paid vendors during the 2016-2017 award year without implementing procedures to ensure compliance with this requirement.

Effect: International American Education Federation, Inc. could have made payments to vendors who were suspended or debarred and would have been responsible to repay the granting agency. We were able to determine the vendors used by International American Education Federation, Inc. had not been suspended or debarred and, therefore, are not questioning these costs.

Recommendation: We recommend International American Education Federation, Inc. ensure vendors paid with federal funds are not suspended or debarred and retain documentation to demonstrate compliance.

Management's Response: At the end of FY16, management made a decision to move from JR3's Websmart accounting and finance software to Skyward. We also made a decision to bring all of the back-office processing, that was being performed by the staff at JR3, in-house. In doing so, one of the areas that needed to be addressed was checking new vendors for suspension and debarment. In the transition, this item was not addressed until late in the FY17 year. All new vendors have subsequently been checked with no vendors being suspended or debarred. There are now procedures in place to check suspension and debarment for all new vendors as they are being set up in the Skyward system.



**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE YEAR ENDED AUGUST 31, 2017**

**Findings and Questioned Costs for Federal Awards**

None noted.

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