



International American Education Federation, Inc.

**Consolidated Financial Statements with Compliance Reports
and Supplemental Information
June 30, 2018**

International American Education Federation, Inc.
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**International American Education Federation, Inc.
Certificate of Board**

International American Education Federation, Inc.
Name of Charter Holder

27-4549127
Federal Employer ID Number

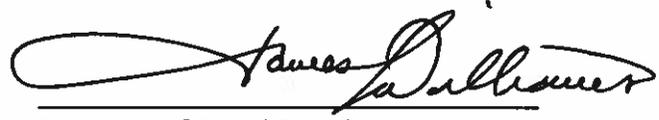
International Leadership of Texas
Name of Charter School

DALLAS
County

057-848
Co. Dist. Number

We, the undersigned, certify that the attached Financial and Compliance Report of International American Education Federation, Inc. was reviewed and (check one) approved ___ disapproved for the ten months ended June 30, 2018, at a meeting of the governing body of the charter school on the 17th day of October, 2018.


Signature of Board Secretary V.P.


Signature of Board President



Independent Auditors' Report

To the Board of Directors of
International American Education Federation, Inc.

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of International American Education Federation, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the ten months then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 consolidated financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Leadership of Texas – Global were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of International American Education Federation, Inc. as of June 30, 2018 and the changes in its net assets (deficit) and its cash flows for the ten months then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated 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 October 17, 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, 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.

A handwritten signature in cursive script that reads "Sutton Frost Cary".

A Limited Liability Partnership

Arlington, Texas
October 17, 2018

International American Education Federation, Inc.
Consolidated Statement of Financial Position
June 30, 2018

Assets

Current assets:	
Cash and cash equivalents	\$ 15,571,479
Due from government agencies	22,992,358
Accounts receivable, net	40,600
Other receivable	1,513,995
Other current assets	<u>717,108</u>
Total current assets	40,835,540
Property and equipment, net	<u>391,207,951</u>
Total assets	<u>\$ 432,043,491</u>

Liabilities and Net Assets (Deficit)

Current liabilities:	
Accounts payable	\$ 949,257
Accrued payroll	11,732,111
Accrued interest	2,040,425
Student activity funds	682,820
Deferred revenue	831,000
Current maturities of finance lease liability	11,353,575
Current maturities of long-term debt	<u>2,553,911</u>
Total current liabilities	30,143,099
Long-term liabilities:	
Other liabilities	4,550,000
Finance lease liability	294,052,985
Long-term debt, net of debt issuance costs	<u>108,770,263</u>
Total liabilities	437,516,347
Net assets (deficit):	
Unrestricted	<u>(5,472,856)</u>
Total net deficit	<u>(5,472,856)</u>
Total liabilities and net deficit	<u>\$ 432,043,491</u>

See notes to consolidated financial statements.

International American Education Federation, Inc.
Consolidated Statement of Activities
Ten Months Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue and other support:			
Local support:			
SSA - Local revenues from member districts	\$ 2,153,313	\$ -	\$ 2,153,313
Interest, dividends, gains, and losses	121,663	-	121,663
Foundations, other non-profit organizations, gifts, and bequests	-	158,305	158,305
Other revenues from local sources	1,188,314	-	1,188,314
Food service activity	873,684	-	873,684
Total local support	4,336,974	158,305	4,495,279
State program revenues:			
Per capita apportionment	-	2,048,056	2,048,056
Foundation school program act revenue	-	124,917,736	124,917,736
State program revenue distributed by TEA	-	1,009,243	1,009,243
Total state program revenues	-	127,975,035	127,975,035
Federal program revenue:			
National school breakfast and lunch program	-	3,763,258	3,763,258
Federal program revenue distributed by TEA	-	5,253,626	5,253,626
Total federal program revenue	-	9,016,884	9,016,884
Net assets released from restrictions-			
Restrictions satisfied by payments	137,253,886	(137,253,886)	-
Total revenue and other support	141,590,860	(103,662)	141,487,198

See notes to consolidated financial statements.

International American Education Federation, Inc.
Consolidated Statement of Activities
Ten Months Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Expenses:			
Program services:			
Instruction	\$ 64,978,673	\$ -	\$ 64,978,673
Instruction resources and media	706,571	-	706,571
Curriculum and instructional staff development	4,505,413	-	4,505,413
Instructional leadership	796,942	-	796,942
School leadership	8,118,603	-	8,118,603
Guidance, counseling and evaluation services	3,810,029	-	3,810,029
Social work services	1,886	-	1,886
Health services	1,273,826	-	1,273,826
Student transportation	1,271,495	-	1,271,495
Food services	4,781,821	-	4,781,821
Extracurricular activities	2,026,335	-	2,026,335
Supporting services:			
General administration	5,588,130	-	5,588,130
Facilities maintenance and operations	665,805	-	665,805
Security and monitoring services	1,372,978	-	1,372,978
Data processing services	8,057,064	-	8,057,064
Community services	808,363	-	808,363
Debt service	27,524,151	-	27,524,151
Total expenses	136,288,085	-	136,288,085
Excess of revenues over expenses from operations	5,302,775	(103,662)	5,199,113
Non-operating activities:			
Gain on insurance settlement (Note 11)	1,408,064	-	1,408,064
Other expense	(429,140)	-	(429,140)
Total non-operating activities	978,924	-	978,924
Change in net assets (deficit)	6,281,699	(103,662)	6,178,037
Net assets (deficit) at beginning of period	(11,754,555)	103,662	(11,650,893)
Net assets (deficit) at end period	\$ (5,472,856)	\$ -	\$ (5,472,856)

See notes to consolidated financial statements.

International American Education Federation, Inc.
Consolidated Statement of Cash Flows
Ten Months Ended June 30, 2018

Cash flows from operating activities:	
Change in net assets (deficit)	\$ 6,178,037
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities	
Depreciation	9,875,606
Amortization of bond premium	62,902
Amortization of debt issuance costs	21,261
Changes in assets and liabilities:	
Due from government agencies	(12,154,778)
Accounts receivable	363,678
Other receivable	(1,513,995)
Other current assets	(219,121)
Accounts payable	(2,980,846)
Due to other governments	(323,380)
Accrued payroll	5,346,553
Accrued expenses	1,540,505
Student activity funds	682,820
Deferred revenue	<u>(1,723,858)</u>
Net cash provided by operating activities	5,155,384
Cash flows from financing activities:	
Principal payments on finance lease liabilities	(8,417,167)
Principal payments on debt	<u>(2,174,407)</u>
Net cash used by financing activities	<u>(10,591,574)</u>
Net decrease in cash and cash equivalents	(5,436,190)
Cash and cash equivalents at beginning of period	<u>21,007,669</u>
Cash and cash equivalents at end of period	<u><u>\$ 15,571,479</u></u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 15,469,374
Supplemental schedule of noncash investing and financing activities:	
Property and equipment acquired through finance lease	\$ 2,427,480
Property and equipment acquired through issuance of long-term debt	\$ 808,222

See notes to consolidated financial statements.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

1. Organization and Nature of Activities

International American Education Federation, Inc. (IAEF or 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.

The Organization is the charter holder of International Leadership of Texas (School). The School is a state authorized, open enrollment charter school. The School's initial charter was for a five-year period, beginning 2013 through 2018. The Texas Education Agency recently approved a ten-year renewal of the charter to 2028. The School operated 26 campuses at 15 locations serving approximately 15,900 students during the ten month period ended June 30, 2018.

International Leadership of Texas - Global (Global), is a 501(c)(3) corporation whose mission is to strengthen, enhance and support the advancement of the School 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 the School's open-enrollment charter school to further support and facilitate cross-cultural educational models and methods. The consolidated financial statements include the accounts of the School and Global. Intercompany transactions and balances are eliminated in the consolidation process because the School has both control and an economic interest in Global. Unless otherwise noted, these consolidated entities are hereinafter referred to as the Organization. The School receives support from the State of Texas Foundation School Fund, government grants and contributions.

Change in Fiscal Year

With approval from the Texas Education Agency, the Organization elected to change its fiscal year-end to June 30 effective with the fiscal period beginning September 1, 2017. The financial statements for the ten months ended June 30, 2018 represents data for the Organization's ten-month transitional fiscal period from September 1, 2017 through June 30, 2018. The accompanying supplemental information was also prepared on a ten-month basis.

2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The Organization prepares its consolidated financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

Net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor or grantor stipulations that will be met by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. There are no temporarily restricted net assets at June 30, 2018.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be maintained permanently by the Organization. There are no permanently restricted net assets at June 30, 2018.

Credit and Market Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2018 the Organization had no bank balances that were uninsured or without pledged collateral in the Organization's name.

During the ten months ended June 30, 2018, the Organization earned revenue of \$133,394,163 from the Texas Education Agency (TEA). These amounts constitute approximately 94% 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. For the ten months ended June 30, 2018, the Organization received over 96% of its total revenue and support from governmental agencies.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost, if purchased, and at fair market value, if donated. Assets with a cost of \$5,000 or more and an expected life greater than one year are capitalized. Property and equipment acquired with public funds received for the operation of the Academy constitute public property pursuant to Chapter 12 of the Texas Education Code.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

Depreciation of these assets is calculated on a straight-line method over the estimated useful lives of 3 to 40 years. Expenditures for additions, major renewals, and betterments are capitalized, and maintenance and repairs are charged to expense as incurred.

Effective September 1, 2017, the Organization adopted a change in accounting estimate of all buildings useful lives from 30 to 40 years as well as various furniture and equipment items from 5 to 10 years. The change will be treated prospectively and resulted in a net increase in change in net assets for the period ended June 30, 2018 of approximately \$900,000. The effect on future periods will be an approximately \$700,000 increase to the overall change in net assets.

Impairment of Long Lived Assets

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment included current operating results, trends and prospects and the effects of obsolescence, demand completion and other economic factors. There were no indications of asset impairment during the ten months ended June 30, 2018.

Debt Issuance Costs and Original Issue Premiums

Debt issuance costs and original issue premiums represent costs incurred related to the issuance of bonds payable and are deferred as a direct deduction from the carrying amount of bonds payable and amortized using the interest method over the related bond period. Amortization expense is included in debt service in the accompanying consolidated statement of activities.

Revenues and Contributions

Revenues from the state of Texas are earned based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met. If public and private terms are not met revenues are reimbursed to funder. Conditional promises to give are contingent upon the Organization meeting certain criteria specified by the donors. Revenues from conditional promises to give are not recognized until the condition has been fulfilled, advances received from donors are recorded as deferred revenues until the condition has been fulfilled.

The Organization's policy is to report restricted support as temporarily restricted regardless of whether or not the restrictions are met with the same fiscal year.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

Contributed Services

Contributed services are recognized in the accompanying consolidated financial statements at fair value if the services received create or enhance non-financial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Numerous individuals donate significant amounts of time to the Organization. No donated services were utilized that met the criteria to be recorded as revenue in the Organization's financial statements.

Federal Income Taxes

The School and Global are organized as Texas nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Each entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. For the ten months ended June 30, 2018, the entities did not conduct unrelated business activities that would be subject to federal income taxes and had no uncertain tax positions. Therefore, no tax provision or liability has been reported in the accompanying consolidated financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing each entity's annual Form 990 and recognition of a tax liability (or asset) if the entity has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by each entity, and has concluded that as of June 30, 2018, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Personal Leave

All employees of the Organization earn five days of state personal and sick leave per year and three days of local personal 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.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

Functional Allocation of Expenses

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

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02 or ASC 842). ASU 2016-02 supersedes the current accounting for leases.

The new standard, while retaining two distinct types of leases, finance and operating, (i) requires lessees to record a right of use asset and a related liability for the rights and obligations associated with a lease, regardless of lease classification, and recognize lease expense in a manner similar to current accounting, (ii) eliminates current real estate specific lease provisions, (iii) modifies the lease classification criteria and (iv) aligns many of the underlying lessor model principles with those in the new revenue standard. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within. Early adoption is permitted. Entities are required to use a modified retrospective approach when transitioning to ASU 2016-02 for leases that exist as of or are entered into after the beginning of the earliest comparative period presented in the financial statements.

The Organization elected to early adopt ASU 2016-02, effective as of September 1, 2017, which was a change in accounting principle. Accordingly, the accompanying consolidated financial statements reflect the period-specific effects of the adoption. Upon adoption, the Organization elected a permitted practical expedient to use hindsight in determining the lease term under the new standard. As a lessee under ASU 2016-02, the Organization recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain premeasurements for the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Organization's incremental borrowing rate. Generally, the Organization uses its incremental borrowing rate as a discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under the purchase option that the Organization is reasonably certain to exercise, lease payments in an optional renewal period if the Organization is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Organization is reasonably certain not to early terminate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Organization's estimate of the amount expected to be payable under a residual value guarantee, or if the Organization changes its assessment of whether it will exercise a purchase, extension or termination option.

The Organization has elected not to recognize right-of-use assets and lease liabilities for short term leases of furniture and equipment that have a lease term of 12 months or less and leases of low-value assets. The Organization recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. Cash and Cash Equivalents

Cash and cash equivalents includes amounts required to be maintained in separate bank accounts in accordance with the 2015 Series Master Trust Indenture and Security Agreement. Cash and cash equivalents were restricted as follows at June 30, 2018:

Debt service	\$ 8,056,897
Debt service reserves	<u>3,258,525</u>
Total restricted cash	<u><u>\$ 11,315,422</u></u>

International American Education Federation, Inc.
Notes to Consolidated Financial Statements

4. Property and Equipment

Property and equipment consist of the following:

Land	\$ 9,433,537
Finance lease right-of-use asset (Land)	27,028,258
Buildings and improvements	79,431,329
Finance lease right-of-use asset (Buildings)	282,234,847
Finance lease right-of-asset (Furniture and equipment)	15,917,954
Vehicles	<u>2,165,867</u>
Total property and equipment	416,211,792
Less accumulated depreciation	<u>(25,003,841)</u>
Property and equipment, net	<u><u>\$ 391,207,951</u></u>

Depreciation expense for the ten months ended June 30, 2018 totaled \$9,875,606.

5. Deferred Revenue

Deferred revenue at June 30, 2018 consisted of foreign student tuition and housing that has been prepaid for the 2018/2019 school year.

6. Other Liabilities

During the year ended August 31, 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 opened in the 2017/2018 school year. These funds will be repaid back as part of financing lease payments in future periods. Subsequent to year end, \$1,300,000 of the advancements were repaid when the Organization exercised their option to purchase two of the schools.

7. Leases

Finance Leases

The Organization leases land, buildings and certain furniture and equipment totaling \$325,181,059 under finance leases at June 30, 2018. Accumulated depreciation on these assets totaled \$17,595,784 at June 30, 2018.

International American Education Federation, Inc.
Notes to Consolidated Financial Statements

As of June 30, 2018 the Organization has a finance lease liability totaling \$305,406,560 bearing interest at the incremental borrowing rate of 4.625%. The future expected payments for the years ending June 30 are as follows:

2019	\$ 25,395,893
2020	25,402,005
2021	25,230,249
2022	24,482,323
2023	24,800,834
Thereafter	<u>244,276,322</u>
	369,587,626
Less amounts representing interest	<u>64,181,066</u>
Present value of future minimum lease payments	305,406,560
Less current maturities	<u>11,353,575</u>
Finance lease liability, net of current maturities	<u><u>\$ 294,052,985</u></u>

The majority of the leases contain purchase options exercisable by the Organization. The Organization intends to exercise these purchase options. The Organization assesses at lease commencement whether it is reasonably certain to exercise its purchase options. The Organization reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

8. Long-Term Debt

The following is a summary of changes in the Organization's total long-term debt for the ten months ended June 30, 2018.

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Bonds payable:					
Series 2015A	\$ 105,680,000	\$ -	\$ -	\$ 105,680,000	\$ -
Series 2015B	5,360,000	-	-	5,360,000	1,810,000
Bond discounts	(2,113,497)	-	62,902	(2,050,595)	-
Debt issuance costs	<u>(714,374)</u>	-	<u>21,261</u>	<u>(693,113)</u>	-
Total bonds payable	108,212,129	-	84,163	108,296,292	1,810,000
Notes payable	<u>4,394,069</u>	<u>808,222</u>	<u>(2,174,409)</u>	<u>3,027,882</u>	<u>743,911</u>
Total	<u><u>\$ 112,606,198</u></u>	<u><u>\$ 808,222</u></u>	<u><u>\$ (2,090,246)</u></u>	<u><u>\$ 111,324,174</u></u>	<u><u>\$ 2,553,911</u></u>

On June 1, 2015 the Organization issued \$105,680,000 Education Revenue Bonds – Series 2015A and \$5,360,000 of taxable Education Revenue Bonds – Series 2015B. The bonds mature serially each August 5, starting 2018 until 2045.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

The bonds were issued as education revenue bonds, and have interest rates ranging from 4.625% to 6%, and are collateralized by a deed of trust and pledge of revenues of the Organization.

Proceeds of the bonds were used for capital asset purchases, construction, repayment of previously issued debt and establishing reserves for future debt service. The bonds are secured by notes issued under the master trust indenture, and such notes are secured by real estate.

The master trust indenture establishes that the Organization must maintain operating reserves in an amount equal to at least forty days of actual expenses for the year ended June 30, 2018 as well as a debt service coverage ratio, which stipulates that available revenues for each fiscal year must be equal to at least 1.10 times the annual debt service of the Organization as of the end of the first fiscal year after the date of issuance and thereafter until the individual bond or notes have been paid in full. During the ten month period ended June 30, 2018, the Organization was in compliance with the requirements in accordance with the master trust indenture.

The required debt service payments to satisfy the requirements of the bonds are as follows for the years ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,810,000	\$ 6,065,844	\$ 7,875,844
2020	1,920,000	5,945,613	7,865,613
2021	2,040,000	5,833,413	7,873,413
2022	2,160,000	5,724,063	7,884,063
2023	2,260,000	5,621,850	7,881,850
2024-2028	12,975,000	26,377,216	39,352,216
2029-2033	16,555,000	22,666,078	39,221,078
2034-2038	21,565,000	17,491,525	39,056,525
2039-2043	28,450,000	10,398,013	38,848,013
2044-2046	21,305,000	1,882,981	23,187,981
Total	<u>\$ 111,040,000</u>	<u>\$ 108,006,596</u>	<u>\$ 219,046,596</u>

As of June 30, 2018 the Organization has various notes payable with financial institutions totaling \$3,027,882 bearing interest at rates ranging from 4.85% to 9.5%. Principal and interest payments ranging from \$397 to \$135,306 are due monthly until maturity ranging from July 2018 through October 2023. The notes payable are secured by vehicles and furniture and equipment.

International American Education Federation, Inc.
Notes to Consolidated Financial Statements

Future maturities are as follows for the years ending June 30:

2019	\$	743,911
2020		801,554
2021		840,828
2022		391,552
2023		121,954
Thereafter		128,083

Interest expense on long-term debt for the ten months ended June 30, 2018 totaled \$17,509,799.

9. Defined Benefit Pension Plan

The Organization participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS).

TRS's defined benefit pension plan (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 Code.

The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The Plan'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 Plan.

TRS provides service retirement and disability retirement benefits, and 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).

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above. Charter schools are legally separate entities from the State and each other.

Assets contributed by one charter school or Independent School District (ISD) may be used for the benefit of an employee of another ISD or charter school. The unfunded obligations get passed along to the other charter schools and ISDs. There is not a withdrawal penalty for leaving the TRS system.

Information with respect to the Plan and the Organization's participation in the Plan for the ten months ended June 30, 2018 is as follows:

Legal Name of Plan:	Teacher Retirement System of Texas
EIN/Pension Plan Number:	N/A
Total Plan Assets:	\$165,905,739,933
Accumulated Benefit Obligations:	\$216,125,270,107
Plan funded percentage:	80.5% funded
Is plan covered by collective bargaining agreements?	No
Employer contributions to the plan:	\$1,117,194
Contributions greater than 5% of total plan contributions?	No
Contribution rates:	
Member	7.7%
Non-Employer Contributing Entity (State)	6.8%
Employers	6.8%

There have been no changes that would affect the comparison of employer contributions from year to year.

10. Health Care Coverage

During the ten months ended June 30, 2018, full-time employees of the Organization were covered by the a health insurance plan. The Organization contributed \$351 per month per employee for the period from September 1, 2017 to June 30, 2018 to the plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for their dependents. All premiums were paid to licensed insurers.

11. Insurance Settlement

In 2016 the Organization sustained storm damage at two of its school buildings. The Organization's property was insured and the school buildings were restored to their previous operating state. During the ten months ended June 30, 2018 the Organization received a final settlement from the insurance company in the amount of \$1,408,064.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

The proceeds of the settlement are recorded as gain on insurance settlement and other receivable in the accompanying consolidated financial statements.

12. 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 TEA and is subject to audit and adjustment.

Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the 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 TEA or other grantor agency.

The Organization is subject to a number of lawsuits and claims (some of which involve substantial dollar amounts) related to assessed property taxes by the taxing entity on the Organization's seven schools held under finance leases.

The Organization will continually assess the likelihood of any adverse judgments or outcomes to these contingencies, as well as the potential amounts or ranges of probable losses, and recognize a liability, if any, for these contingencies based on a thorough analysis of each matter with the assistance of outside legal counsel and if applicable, other experts. As of June 30, 2018, the amount of property taxes in question, including penalties and interest totaled approximately \$3,700,000. Subsequent to year end, the Organization exercised their option to purchase two of the schools and were required to pay the back property taxes totaling \$1,457,116 under protest.

13. Subsequent Events

Subsequent to year end, the Organization entered into build to suit financing lease agreements for two new school locations. The Organization will have the option to purchase both locations on the first anniversary of each respective commencement date.

On September 28, 2018, the Organization issued a note payable for \$55,120,000 in order to exercise their option to purchase two campuses that were previously held under finance leases as of June 30, 2018. The price to purchase the facilities totaled \$52,822,331, which includes \$1,300,000 in lease incentives due to the lessor for advancements on startup costs along with property tax payments of \$1,457,116, which were paid by the Organization under protest.

The Organization evaluated subsequent events after the statement of financial position date of June 30, 2018 through October 17, 2018, which was the date the financial statements were available to be issued, and concluded that no additional disclosures are required.

Supplemental Information

International American Education Federation, Inc
Consolidating Statement of Financial Position
June 30, 2018

	International Leadership of Texas	International Leadership of Texas - Global	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 14,714,466	\$ 857,013	\$ -	\$ 15,571,479
Due from government agencies	22,992,358	-	-	22,992,358
Accounts receivable, net	-	40,600	-	40,600
Other receivable	1,513,995	-	-	1,513,995
Other current assets	<u>704,920</u>	<u>283,258</u>	<u>(271,070)</u>	<u>717,108</u>
Total current assets	39,925,739	1,180,871	(271,070)	40,835,540
Property and equipment, net	<u>391,207,951</u>	<u>-</u>	<u>-</u>	<u>391,207,951</u>
Total assets	<u>\$ 431,133,690</u>	<u>\$ 1,180,871</u>	<u>\$ (271,070)</u>	<u>\$ 432,043,491</u>
Liabilities and Net Assets (Deficit)				
Current liabilities:				
Accounts payable	\$ 909,552	\$ 39,705	\$ -	\$ 949,257
Accrued payroll	11,727,641	4,470	-	11,732,111
Accrued interest	2,040,425	-	-	2,040,425
Student activity funds	682,820	-	-	682,820
Deferred revenue	271,070	831,000	(271,070)	831,000
Current maturities of finance lease liability	11,353,575	-	-	11,353,575
Current maturities of long-term debt	<u>2,553,911</u>	<u>-</u>	<u>-</u>	<u>2,553,911</u>
Total current liabilities	29,538,994	875,175	(271,070)	30,143,099
Long-term liabilities:				
Other liabilities	4,550,000	-	-	4,550,000
Finance lease liability	294,052,985	-	-	294,052,985
Long-term debt, net of debt issuance costs	<u>108,770,263</u>	<u>-</u>	<u>-</u>	<u>108,770,263</u>
Total liabilities	436,912,242	875,175	(271,070)	437,516,347
Net assets (deficit):				
Unrestricted	<u>(5,778,552)</u>	<u>305,696</u>	<u>-</u>	<u>(5,472,856)</u>
Total net assets (deficit)	<u>(5,778,552)</u>	<u>305,696</u>	<u>-</u>	<u>(5,472,856)</u>
Total liabilities and net assets (deficit)	<u>\$ 431,133,690</u>	<u>\$ 1,180,871</u>	<u>\$ (271,070)</u>	<u>\$ 432,043,491</u>

See notes to consolidated financial statements.

International American Education Federation, Inc
Consolidating Statement of Activities
Ten Months Ended June 30, 2018

	International Leadership of Texas	International Leadership of Texas - Global	Eliminations	Total
Revenue and other support				
Local support:				
SSA- Local revenues from member districts	\$ 708,228	\$ 2,153,313	(708,228)	\$ 2,153,313
Interest, dividends, gains, and losses	121,663	-	-	121,663
Foundations, other non-profit organizations, gifts, and bequests	92,367	65,938	-	158,305
Other revenues from local sources	1,139,543	48,771	-	1,188,314
Food service activity	873,684	-	-	873,684
Total local support	2,935,485	2,268,022	(708,228)	4,495,279
State program revenues:				
Per capita apportionment	2,048,056	-	-	2,048,056
Foundation school program act revenue	124,917,736	-	-	124,917,736
State program revenue distributed by TEA	1,009,243	-	-	1,009,243
Total state program revenue	127,975,035	-	-	127,975,035
Federal program revenues:				
National school breakfast and lunch program	3,763,258	-	-	3,763,258
Federal program revenue distributed by TEA	5,253,626	-	-	5,253,626
Total federal program revenue	9,016,884	-	-	9,016,884
Total revenue	\$ 139,927,404	\$ 2,268,022	\$ (708,228)	\$ 141,487,198

See notes to consolidated financial statements.

International American Education Federation, Inc
Consolidating Statement of Activities
Ten Months Ended June 30, 2018

	International Leadership of Texas	International Leadership of Texas - Global	Eliminations	Total
Expenses				
Program services:				
Instruction	\$ 64,672,068	\$ 1,014,833	\$ (708,228)	\$ 64,978,673
Instruction resources and media	706,571	-	-	706,571
Curriculum and instructional staff development	4,505,413	-	-	4,505,413
Instructional leadership	796,942	-	-	796,942
School leadership	8,118,603	-	-	8,118,603
Guidance, counseling, evaluation services	3,810,029	-	-	3,810,029
Social work services	1,886	-	-	1,886
Health services	1,273,826	-	-	1,273,826
Student transportation	1,271,495	-	-	1,271,495
Food services	4,781,821	-	-	4,781,821
Extracurricular activities	2,026,335	-	-	2,026,335
Supporting services:				
General administration	4,876,211	711,919	-	5,588,130
Facilities maintenance and operations	665,805	-	-	665,805
Security and monitoring services	1,372,978	-	-	1,372,978
Data processing services	8,057,064	-	-	8,057,064
Community services	808,363	-	-	808,363
Debt service	27,524,151	-	-	27,524,151
Total expenses	<u>135,269,561</u>	<u>1,726,752</u>	<u>(708,228)</u>	<u>136,288,085</u>
Excess of revenues over expenses from operations	4,657,843	541,270	-	5,199,113
Non-operating activities:				
Gain on insurance settlement (Note 11)	1,408,064	-	-	1,408,064
Other expense	(429,140)	-	-	(429,140)
Total non-operating activities	<u>978,924</u>	<u>-</u>	<u>-</u>	<u>978,924</u>
Change in net assets (deficit)	5,636,767	541,270	-	6,178,037
Net assets (deficit) at beginning of period	<u>(11,415,319)</u>	<u>(235,574)</u>	<u>-</u>	<u>(11,650,893)</u>
Net assets (deficit) at end of period	<u>\$ (5,778,552)</u>	<u>\$ 305,696</u>	<u>\$ -</u>	<u>\$ (5,472,856)</u>

See notes to consolidated financial statements.

International Leadership of Texas
Statement of Financial Position
June 30, 2018

Assets

Current assets:	
Cash and cash equivalents	\$ 14,714,466
Due from government agencies	22,992,358
Other receivable	1,513,995
Other current assets	<u>704,920</u>
Total current assets	39,925,739
Property and equipment, net	<u>391,207,951</u>
Total assets	<u>\$ 431,133,690</u>

Liabilities and Net Assets (Deficit)

Current liabilities:	
Accounts payable	909,552
Accrued payroll	11,727,641
Accrued interest	2,040,425
Student activity funds	682,820
Deferred revenue	271,070
Current maturities of finance lease liability	11,353,575
Current maturities of long-term debt	<u>2,553,911</u>
Total current liabilities	29,538,994
Long-term liabilities:	
Other liabilities	4,550,000
Finance lease liability	294,052,985
Long-term debt, net of debt issuance costs	<u>108,770,263</u>
Total liabilities	436,912,242
Net assets (deficit):	
Unrestricted	<u>(5,778,552)</u>
Total net assets (deficit)	<u>(5,778,552)</u>
Total liabilities and net assets (deficit)	<u>\$ 431,133,690</u>

See notes to consolidated financial statements.

International Leadership of Texas
Statement of Activities
Ten Months Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support			
Local support:			
5722 SSA- Local revenues from member districts	\$ -	\$ 708,228	\$ 708,228
5742 Interest, dividends, gains, and losses	121,663	-	121,663
5744 Foundations, other non-profit organizations, gifts, and bequests	-	92,367	92,367
5749 Other revenues from local sources	1,139,543	-	1,139,543
5751 Food service activity	873,684	-	873,684
Total local support	2,134,890	800,595	2,935,485
State program revenues:			
5811 Per capita apportionment	-	2,048,056	2,048,056
5812 Foundation school program act revenue	-	124,917,736	124,917,736
5829 State program revenue distributed by TEA	-	1,009,243	1,009,243
Total state program revenue	-	127,975,035	127,975,035
Federal program revenues:			
5921 National school breakfast and lunch program	-	3,763,258	3,763,258
5929 Federal program revenue distributed by TEA	-	5,253,626	5,253,626
Total federal program revenue	-	9,016,884	9,016,884
Net assets released from restrictions			
Restrictions satisfied by payments	137,896,176	(137,896,176)	-
Total revenue	\$ 140,031,066	\$ (103,662)	\$ 139,927,404

See notes to consolidated financial statements.

International Leadership of Texas
Statement of Activities
Ten Months Ended June 30, 2018

Expenses

Program services:

11	Instruction	\$ 64,672,068	\$ -	\$ 64,672,068
12	Instruction resources and media	706,571	-	706,571
13	Curriculum and instructional staff development	4,505,413	-	4,505,413
21	Instructional leadership	796,942	-	796,942
23	School leadership	8,118,603	-	8,118,603
31	Guidance, counseling, evaluation services	3,810,029	-	3,810,029
32	Social work services	1,886	-	1,886
33	Health services	1,273,826	-	1,273,826
34	Student transportation	1,271,495	-	1,271,495
35	Food services	4,781,821	-	4,781,821
36	Extracurricular activities	2,026,335	-	2,026,335

Supporting services:

41	General administration	4,876,211	-	4,876,211
51	Facilities maintenance and operations	665,805	-	665,805
52	Security and monitoring services	1,372,978	-	1,372,978
53	Data processing services	8,057,064	-	8,057,064
61	Community services	808,363	-	808,363
71	Debt service	27,524,151	-	27,524,151

Total expenses	<u>135,269,561</u>	<u>-</u>	<u>135,269,561</u>
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Excess of revenues over expenses from operations	4,761,505	(103,662)	4,657,843
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Non-operating activities:

7956	Gain on insurance settlement (Note 11)	1,408,064	-	1,408,064
8911	Other expense	(429,140)	-	(429,140)

Total non-operating activities	978,924	-	978,924
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Change in net assets (deficit)	5,740,429	(103,662)	5,636,767
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Net assets (deficit) at beginning of period	<u>(11,518,981)</u>	<u>103,662</u>	<u>(11,415,319)</u>
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Net assets (deficit) at end of period	<u>\$ (5,778,552)</u>	<u>\$ -</u>	<u>\$ (5,778,552)</u>
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See notes to consolidated financial statements.

International Leadership of Texas
Schedule of Expenses
Ten Months Ended June 30, 2018

<u>Object Code</u>	<u>Description</u>	<u>Amount</u>
6100	Payroll costs	\$ 81,355,018
6200	Professional and contracted services	2,580,086
6300	Supplies and materials	6,510,924
6400	Other operating costs	17,299,382
6500	Debt service	<u>27,524,151</u>
	Total expenses	<u>\$135,269,561</u>

See notes to consolidated financial statements.

International Leadership of Texas
Schedule of Capital Assets
June 30, 2018

Description	Ownership Interest	
	Local	State
1510 Land	\$ 519,788	\$ 8,913,749
1510 Land (finance lease)	-	27,028,258
1520 Buildings and improvements	4,376,666	75,054,663
1520 Buildings and improvements (finance lease)	-	282,234,847
1531 Vehicles	74,806	2,091,061
1549 Furniture and equipment (finance lease)	743,325	15,174,629
1570 Accumulated depreciation	(563,770)	(6,844,287)
1570 Accumulated depreciation (finance lease)	-	(17,595,784)
	<u>\$ 5,150,815</u>	<u>\$ 386,057,136</u>

See notes to consolidated financial statements.

International Leadership of Texas
Budgetary Comparison Schedule
Ten Months Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenue and other support:				
Local support:				
5722 SSA- Local revenues from member districts	\$ 850,000	\$ 708,228	\$ 708,228	\$ -
5742 Interest, dividends, gains, and losses	60,000	121,663	121,663	-
5744 Foundations, other non-profit organizations, gifts, and bequests	-	92,367	92,367	-
5749 Other revenues from local sources	8,771,240	1,139,543	1,139,543	-
5750 Food service activity	999,500	873,684	873,684	-
State program revenues:				
5811 Per capita apportionment	2,349,866	2,048,056	2,048,056	-
5812 Foundation school program act revenue	131,632,054	124,917,736	124,917,736	-
5829 State program revenue distributed by TEA	1,164,000	1,009,243	1,009,243	-
Federal program revenues:				
5920 Federal program revenue distributed by TEA	8,920,643	9,016,884	9,016,884	-
Total revenue and other support	154,747,303	139,927,404	139,927,404	-
Expenses:				
Program services:				
11 Instruction	70,228,710	64,672,068	64,672,068	-
12 Instruction resources and media	578,531	706,571	706,571	-
13 Curriculum and instructional staff development	2,309,844	4,505,413	4,505,413	-
21 Instructional leadership	870,329	796,942	796,942	-
23 School leadership	9,834,301	8,118,603	8,118,603	-
31 Guidance, counseling, evaluation services	4,237,905	3,810,029	3,810,029	-
32 Social work services	-	1,886	1,886	-
33 Health services	1,583,747	1,273,826	1,273,826	-
34 Student transportation	934,740	1,271,495	1,271,495	-
35 Food services	3,530,368	4,781,821	4,781,821	-
36 Extracurricular activities	2,383,120	2,026,335	2,026,335	-
Supporting services:				
41 General administration	5,894,944	4,876,211	4,876,211	-
51 Facilities maintenance and operations	25,137,964	665,805	665,805	-
52 Security and monitoring service	1,754,032	1,372,978	1,372,978	-
53 Data processing services	4,332,792	8,057,064	8,057,064	-
61 Community services	2,502,496	808,363	808,363	-
71 Debt service	10,753,905	27,524,151	27,524,151	-
Total expenses	146,867,728	135,269,561	135,269,561	-
Excess revenues over expenses from operations	7,879,575	4,657,843	4,657,843	-
Non-operating activities:				
7956 Gain on insurance settlement	-	1,408,064	1,408,064	-
8911 Other expense	-	(429,140)	(429,140)	-
Total non-operating activities	-	978,924	978,924	-
Change in net assets (deficit)	7,879,575	5,636,767	5,636,767	-
Net assets (deficit) at beginning of period	(11,415,319)	(11,415,319)	(11,415,319)	-
Net assets (deficit) at end of period	\$ (3,535,744)	\$ (5,778,552)	\$ (5,778,552)	\$ -

See notes to consolidated financial statements.

Compliance Reports

**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 Directors
International American Education Federation, Inc.

We have audited the consolidated financial statements of International American Education Federation, Inc. (School) (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the ten months then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 17, 2018. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The consolidated financial statements of International Leadership of Texas – Global were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with International Leadership of Texas – Global.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

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.



A Limited Liability Partnership

Arlington, Texas
October 17, 2018

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
International American Education Federation, Inc.

Report on Compliance for Each Major Federal Program

We have audited International American Education Federation, Inc.'s (School) (a nonprofit School) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the ten months ended June 30, 2018. The Organization'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 U.S. generally accepted auditing standards; 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* 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 the Organization'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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the ten months ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Organization 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 the Organization'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 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 the Organization's internal control over compliance.

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 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.

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. 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.

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.



A Limited Liability Partnership

Arlington, Texas
October 17, 2018

International American Education Federation, Inc.
Schedule of Findings and Questioned Costs
Ten Months Ended June 30, 2018

Section I – Summary of Auditors’ Results

Consolidated Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to consolidated financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes 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 2 CFR 200.516(a)? yes no

Identification of major federal programs or cluster:

Child Nutrition Cluster CFDA 10.553 and 10.555
 Special Education Cluster CFDA 84.027 and 84.073

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

Audit findings: None

Section III – Federal Award Findings and Questioned Costs

Audit findings: None

International American Education Federation, Inc.
Summary Schedule of Prior Audit Findings
Ten Months Ended June 30, 2018

The Organization has completed the corrective action plans required for all findings as a result of the prior year audit. For a complete description of the prior audit findings, please refer to the Schedule of Findings and Questioned Costs for the year ended August 31, 2017.

The following schedule summarizes the status of prior audit findings.

Financial Statement Findings:

Finding No. 2017-001

Criteria: All non-system generated journal entries should be approved by management, in accordance with the Organization's procedures.

Condition: There were journal entries that were applied to the general ledger without the proper level of approval.

Cause: The Organization did not follow their procedures regarding all nonstandard journal entries. An accounting staff recorded journal entries that were not signed off on by management.

Effect: 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.

Auditor's Recommendation: The Organization should verify that proper procedures are followed in regard to the recording of journal entries.

View of Responsible Official and Corrective Action Plan: 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.

Current Status: The Organization has completed the corrective action plan required as a result of the prior year audit.

International American Education Federation, Inc.
Summary Schedule of Prior Audit Findings
Ten Months Ended June 30, 2018

Finding No. 2017-002

Criteria: Funds given in advance for operations should be recorded as liabilities and the liability should be reduced when payments on the facilities' operating leases are recorded.

Condition: 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 operating leases of the Organization's facilities.

Cause: There was not a full understanding of the basis of the transactions that resulted in them being recorded incorrectly.

Effect: As a result of not properly recording these transactions, revenue was overstated.

Auditor's Recommendation: 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.

View of Responsible Official and Corrective Action Plan: 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.

Current Status: The Organization has completed the corrective action plan required as a result of the prior year audit.

International American Education Federation, Inc.
Summary Schedule of Prior Audit Findings
Ten Months Ended June 30, 2018

Federal Award Findings:

Finding No. 2017-003

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

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.

Auditor's Recommendation: It was recommend that International American Education Federation, Inc. ensure vendors paid with federal funds are not suspended or debarred and retain documentation to demonstrate compliance.

View of Responsible Official and Corrective Action Plan: 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.

Current Status: The Organization has completed the corrective action plan required as a result of the prior year audit.

International American Education Federation, Inc.
Schedule of Expenditures of Federal Awards
Ten Months Ended June 30, 2018

Federal Grantor/ Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through Texas Education Agency:			
School Breakfast Program	10.553	71401801	\$ 341,610
National School Lunch Program	10.555	71301801	<u>3,263,511</u>
Total Passed through the Texas Education Agency			3,605,121
Passed through Texas Department of Agriculture:			
Commodities - Noncash assistance	10.555	3001201	<u>158,137</u>
Total Passed through Texas Department of Agriculture			<u>158,137</u>
Total Child Nutrition Cluster			<u>3,763,258</u>
Total U.S. Department of Agriculture			3,763,258
U.S. Department of Education:			
Passed through Texas Education Agency:			
Special Education-Grants to States (IDEA, Part B)	84.027A	17660001057848600	1,573,001
Career and Technical - Basic Grant	84.048	19420006057848	126,864
Summer School LEP	84.369A	69551702	<u>7,123</u>
Total Passed through the Texas Education Agency			1,706,988
Passed through Region X Education Service Center:			
ESEA Title I Part A - Improving Basic Programs	84.010A	18610101057950	2,753,556
ESEA Title II Part A - Teacher & Principal Training	84.367A	18694501057950	455,907
Title III, Language Instruction LEP	84.365A	18671001057950	<u>230,156</u>
Total Passed through Region X Education Service Center			<u>3,439,619</u>
Total U.S. Department of Education			<u>5,146,607</u>
Total Expenditures of Federal Awards			<u><u>\$ 8,909,865</u></u>

See notes to schedule of expenditures of federal awards.

International American Education Federation, Inc.
Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) presents the activity of all applicable federal award programs of the International Leadership of Texas (School). The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in Uniform Guidance, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.