



International American Education Federation, Inc.

**Consolidated Financial Statements with Supplemental Information and
Compliance Reports
June 30, 2019**

International American Education Federation, Inc.
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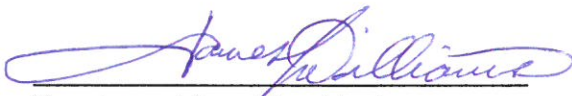
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**International American Education Federation, Inc.
Federal Employer Identification No. 27-4549127
County District No. 057-848
Certificate of Board**

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 year ended June 30, 2019, at a meeting of the governing body of the charter holder on the 18th day of October, 2019.



Signature of Board Secretary



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, 2019, and the related consolidated statements of activities and cash flows for the year 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, 2019 and the changes in its net assets and its cash flows for the year 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 18, 2019 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.

Sutton Frost Cary
A Limited Liability Partnership

Arlington, Texas
October 18, 2019

International American Education Federation, Inc.
Consolidated Statement of Financial Position
June 30, 2019

Assets

Current assets:

Cash and cash equivalents	\$ 5,508,896
Cash and cash equivalents held in trust	52,481,970
Investments	16,098,557
Due from government agencies	27,537,972
Accounts receivable, net	103,528
Other receivable	116,779
Other current assets	247,029

Total current assets	102,094,731
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Property and equipment, net	448,961,473
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Total assets	\$ 551,056,204
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Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 2,363,637
Accrued payroll	12,689,714
Accrued interest	12,892,883
Student activity funds	795,660
Deferred revenue	1,262,880
Current maturities of finance lease liability	2,096,879
Current maturities of long-term debt	3,994,410

Total current liabilities	36,096,063
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Long-term liabilities:

Finance lease liability	1,094,792
Long-term debt, net of debt issuance costs	511,438,704

Total liabilities	548,629,559
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Net assets (deficit):

Without donor restrictions	(1,340,232)
With donor restrictions	3,766,877

Total net assets	2,426,645
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Total liabilities and net assets	\$ 551,056,204
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See notes to consolidated financial statements.

International American Education Federation, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue and other support:			
Local support:			
SSA - Local revenues from member districts	\$ 1,990,170	\$ -	\$ 1,990,170
Interest, dividends, gains, and losses	925,675	-	925,675
Foundations, other non-profit organizations, gifts, and bequests	119,912	-	119,912
Other revenues from local sources	1,156,803	-	1,156,803
Food service activity	1,431,501	-	1,431,501
Total local support	5,624,061	-	5,624,061
State program revenues:			
Per capita apportionment	-	7,414,021	7,414,021
Foundation school program act revenue	-	159,222,845	159,222,845
State program revenue distributed by TEA	-	1,289,884	1,289,884
Total state program revenues	-	167,926,750	167,926,750
Federal program revenue:			
National school breakfast and lunch program	-	6,411,172	6,411,172
Federal program revenue distributed by TEA	-	11,880,557	11,880,557
Total federal program revenue	-	18,291,729	18,291,729
Net assets released from restrictions-			
Restrictions satisfied by payments	182,451,602	(182,451,602)	-
Total revenue and other support	188,075,663	3,766,877	191,842,540

See notes to consolidated financial statements.

International American Education Federation, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Expenses:			
Instruction	\$ 83,425,646	\$ -	\$ 83,425,646
Instruction resources and media	848,061	-	848,061
Curriculum and instructional staff development	6,382,488	-	6,382,488
Instructional leadership	1,249,193	-	1,249,193
School leadership	9,064,465	-	9,064,465
Guidance, counseling and evaluation services	4,454,270	-	4,454,270
Social work services	8,417	-	8,417
Health services	1,478,531	-	1,478,531
Student transportation	1,013,865	-	1,013,865
Food services	7,749,470	-	7,749,470
Extracurricular activities	1,760,143	-	1,760,143
General administration	5,451,117	-	5,451,117
Facilities maintenance and operations	22,128,580	-	22,128,580
Security and monitoring services	1,761,108	-	1,761,108
Data processing services	7,224,211	-	7,224,211
Community services	683,669	-	683,669
Debt service	29,167,323	-	29,167,323
Fundraising	21,673	-	21,673
Total expenses	<u>183,872,230</u>	<u>-</u>	<u>183,872,230</u>
Excess of revenues over expenses from operations	4,203,433	3,766,877	7,970,310
Non-operating activities:			
Other expense	<u>(70,809)</u>	<u>-</u>	<u>(70,809)</u>
Total non-operating activities	<u>(70,809)</u>	<u>-</u>	<u>(70,809)</u>
Change in net assets (deficit)	4,132,624	3,766,877	7,899,501
Net deficit at beginning of year	<u>(5,472,856)</u>	<u>-</u>	<u>(5,472,856)</u>
Net assets (deficit) at end year	<u>\$ (1,340,232)</u>	<u>\$ 3,766,877</u>	<u>\$ 2,426,645</u>

See notes to consolidated financial statements.

International American Education Federation, Inc.
Consolidated Statement of Cash Flows
Year Ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	\$ 7,899,501
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	14,951,070
Amortization of bond discount	125,622
Amortization of debt issuance costs	254,550
Changes in assets and liabilities:	
Due from government agencies	(4,545,614)
Accounts receivable	(62,928)
Other receivable	1,397,216
Other current assets	364,394
Accounts payable	1,409,910
Accrued payroll	962,073
Accrued expenses	10,852,458
Student activity funds	112,840
Deferred revenue	537,565
	<hr/>
Net cash provided by operating activities	34,258,657
Cash flows from investing activities:	
Purchases of investments	(16,098,557)
Purchases of property and equipment	(285,616)
	<hr/>
Net cash used by investing activities	(16,384,173)
Cash flows from financing activities:	
Net proceeds from issuance of long-term debt	44,544,518
Payment of debt issuance costs	(6,250,327)
Principal payments on finance lease liabilities	(9,926,559)
Principal payments on debt	(3,822,729)
	<hr/>
Net cash provided by financing activities	24,544,903
Net increase in cash and cash equivalents	42,419,387
Cash and cash equivalents at beginning of year	<hr/> 15,571,479
Cash and cash equivalents at end of year	<hr/> \$ 57,990,866 <hr/>
Reconciliation of cash and cash equivalents reported within the statement of financial position to the statement of cash flows:	
Cash and cash equivalents	\$ 5,508,896
Cash and cash equivalents held in trust	52,481,970
	<hr/>
Cash and cash equivalents reported on the statement of cash flows	\$ 57,990,866 <hr/>
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 15,469,374
Supplemental schedule of noncash investing and financing activities:	
Payoff of finance lease liabilities through issuance of long-term debt	\$ 346,459,458
Property and equipment acquired through issuance of long-term debt	\$ 70,405,057
Payoff of other liabilities through issuance of long-term debt	\$ 4,550,000
Property and equipment acquired through finance lease	\$ 2,013,919

See notes to consolidated financial statements.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

1. School and Nature of Activities

International American Education Federation, Inc. (Corporation), is a Texas not-for-profit corporation formed in 2011 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Corporation is governed by a Board of Directors comprised of five members. The Board of Directors is selected pursuant to the bylaws of the Corporation and has the authority to make decisions, appoint the chief executive officer of the Corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Corporation. The Corporation operates a single charter school and conducts other noncharter activities with and through International Leadership of Texas – Global.

The Corporation is the charter holder of International Leadership of Texas (ILTexas). ILTexas is a state authorized, open enrollment charter school. The Texas State Board of Education recently approved a ten-year renewal of the charter through 2028. The mission of ILTexas is to prepare students for exceptional leadership roles in the international community by emphasizing servant leadership, mastering the English, Spanish, and Chinese languages, and strengthening the mind, bond and character. ILTexas provides educational services to students at 32 campuses at 19 locations serving approximately 18,100 students during the year ended June 30, 2019.

International Leadership of Texas - Global (ILT Global) is a Texas not-for-profit corporation formed in 2014 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code with a mission to strengthen, enhance and support the advancement of ILTexas by engaging in fundraising and other charitable activities. ILT Global 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. ILT Global partners with the Corporation's open-enrollment charter school to further support and facilitate cross-cultural educational models and methods.

ILT Global is included in these consolidated financial statements since the Corporation has a direct controlling interest and economic interest in ILT Global. Intercompany transactions and balances are eliminated in the consolidation process. Unless otherwise noted, these consolidated entities are hereinafter referred to as the School. IL Texas receives support from the State of Texas Foundation School Fund, government grants and contributions. ILT Global is funded through tuition revenue and fees.

2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The School 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:

Net assets without donor restrictions - Net assets not subject to donor or grantor imposed restrictions.

Net assets with donor restrictions - Net assets subject to donor or grantor restrictions that will be met by actions of the School and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

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, 2019 the School had no bank balances that were uninsured or without pledged collateral in the School's name.

During the year ended June 30, 2019, the School earned revenues of \$179,568,247 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 School to continue to provide the current level of educational services to its students.

Cash and Cash Equivalents

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

Cash and Cash Equivalents Held in Trust

Cash and cash equivalents held in trust and interest income earned on these funds are limited as to use under the terms of the bond indenture.

Investments

Public fund investment pools are stated at fair value. Investment return is reported in the statement of activities as an increase in net assets without donor restrictions unless the use of the income is limited by donor-imposed restrictions. Net investment return consists of interest and dividends net of external and direct internal investment expenses.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

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.

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.

Impairment of Long Lived Assets

The School reviews the carrying value of long-lived assets to determine if facts and circumstances suggest that they may be impaired. 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. There were no indications of asset impairment during the year ended June 30, 2019.

Debt Issuance Costs and Original Issue Discounts

Debt issuance costs and original issue discounts 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 School 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 School's policy is to report restricted support as net assets with donor restrictions regardless of whether or not the restrictions are met with the same fiscal year.

Contributed Services

Contributed professional services are recognized in the accompanying consolidated financial statements at fair value if the services received create or enhance non-financial assets or require professional 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

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

amounts of time to the School. No donated services were utilized that met the criteria to be recorded as revenue in the School's financial statements.

Leases

The School accounts for 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.

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 School's incremental borrowing rate. Generally, the School 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;
- 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 School is reasonably certain to exercise, lease payments in an optional renewal period if the School is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the School 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 School's estimate of the amount expected to be payable under a residual value guarantee, or if the School changes its assessment of whether it will exercise a purchase, extension or termination option.

The School 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 School recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

Federal Income Taxes

ILTexas and ILT 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 year ended June 30, 2019, 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, 2019, 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 School 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.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

The School considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the School's financial position and changes in net assets.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The effective date of ASU 2014-09 is for annual periods beginning after December 15, 2018 for the majority of not-for-profit Schools.

In 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Topic 958, *Not-for-Profit Entities* or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is not a factor for determining whether an agreement is within the scope of that guidance. The standard is effective for annual periods beginning after December 15, 2018 for the majority of not-for-profit entities.

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU amends the previous reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (c) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (d) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The School has adopted this ASU as of and for the year ended June 30, 2019. Adoption of this ASU had no impact on beginning net assets but resulted in additional disclosures and changes in presentation.

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

3. Fair Value Measurements

The requirements of Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification (ASC) apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as 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. Fair Value Measurements and Disclosures also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels.

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are observable, other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities, such as pricing models and discounted cash flow methodologies.

Level 3: Inputs are unobservable, are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Public Fund Investment Pools

These investments are reported at the net asset value per unit, which approximates fair value, using the amortized cost method. These investments use net asset value as a practical expedient and are not categorized in the fair value hierarchy.

Assets measured at fair value at June 30, 2019 are as follows:

Public fund investment pools:	
TexPool	\$ 5,028,154
LOGIC investment pool	<u>11,070,403</u>
 Total assets at fair value	 <u><u>\$ 16,098,557</u></u>

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

4. Cash and Cash Equivalents Held in Trust

Cash and cash equivalents held in trust includes amounts required to be maintained in separate bank accounts in accordance with the 2015 and 2018 Series Master Trust Indenture and Security Agreements.

Cash and cash equivalents held in trust were restricted as follows at June 30, 2019:

Debt service reserves	\$ 38,336,802
Debt service	<u>14,145,168</u>
Total cash and cash equivalents held in trust	<u><u>\$ 52,481,970</u></u>

5. Property and Equipment

Property and equipment consist of the following:

Land	\$ 38,839,724
Buildings and improvements	429,710,102
Finance lease right-of-asset (Furniture and equipment)	17,954,051
Vehicles	<u>2,402,628</u>
Total property and equipment	488,906,505
Less accumulated depreciation	<u>(39,954,910)</u>
Property and equipment, net	<u><u>\$ 448,951,595</u></u>

Depreciation expense for the year ended June 30, 2019 totaled \$14,951,070.

6. Deferred Revenue

Deferred revenue at June 30, 2019 consisted of foreign student tuition and housing that has been prepaid for the 2019/2020 school year.

7. Leases

Finance Leases

The School leases furniture and equipment totaling \$17,954,051 under finance leases at June 30, 2019. Accumulated depreciation on these assets totaled \$10,695,750 at June 30, 2019.

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

As of June 30, 2019 the School has a finance lease liability totaling \$3,191,671 bearing interest at the incremental borrowing rate of 4.625%.

The future expected payments for the years ending June 30 are as follows:

2020	\$ 2,253,780
2021	1,200,137
2022	3,540
Less amounts representing interest	<u>(265,786)</u>
Present value of future minimum lease payments	3,191,671
Less current maturities	<u>2,096,879</u>
Finance lease liability, net of current maturities	<u><u>\$ 1,094,792</u></u>

The majority of the leases contain purchase options exercisable by the School. The School intends to exercise these purchase options. The School assesses at lease commencement whether it is reasonably certain to exercise its purchase options. The School 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 School's total long-term debt for the year ended June 30, 2019.

	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	-	(1,810,000)	3,550,000	1,920,000
Series 2018A	-	53,580,000	-	53,580,000	-
Series 2018B	-	1,570,000	-	1,570,000	345,000
Series 2018C	-	1,615,213	-	1,615,213	231,561
Series 2018D	-	344,220,000	-	344,220,000	-
Series 2018E	-	12,855,000	-	12,855,000	-
Bond discounts	(2,050,595)	(3,721,289)	125,622	(5,646,262)	-
Debt issuance costs	(693,113)	(6,250,327)	254,550	(6,688,890)	-
Total bonds payable	<u>108,296,292</u>	<u>403,868,597</u>	<u>(1,429,828)</u>	<u>510,735,061</u>	<u>2,496,561</u>
Notes payable	<u>3,027,882</u>	<u>3,682,900</u>	<u>(2,012,729)</u>	<u>4,698,053</u>	<u>1,497,849</u>
Total	<u><u>\$ 111,324,174</u></u>	<u><u>\$ 407,551,497</u></u>	<u><u>\$ (3,442,557)</u></u>	<u><u>\$ 515,433,114</u></u>	<u><u>\$ 3,994,410</u></u>

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

On June 1, 2015 the School 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. 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 School.

On September 15, 2018 the School issued \$53,580,000 Education Revenue Bonds – Series 2018A, \$1,570,000 of taxable Education Revenue Bonds – Series 2018B, \$1,615,213 Subordinate Education Revenue Bonds – Series 2018C. The bonds mature serially each March 1, starting 2019 until 2043. The bonds were issued as education revenue bonds, and have interest rates ranging from 6% to 8.5%, and are collateralized by a deed of trust and pledge of revenues of the School.

On December 20, 2018 the School issued \$344,220,000 Education Revenue Bonds – Series 2018D and \$12,855,000 of taxable Education Revenue Bonds – Series 2018E. The bonds mature serially each August 15, starting 2020 until 2048. The bonds were issued as education revenue bonds, and have interest rates ranging from 5% to 6.125%, and are collateralized by a deed of trust and pledge of revenues of the School.

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 School must maintain operating reserves in an amount equal to at least forty five days of actual expenses for the year ended June 30, 2019 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 School 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 year ended June 30, 2019, the School 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>
2020	\$ 2,496,561	\$ 30,602,783	\$ 33,099,344
2021	5,805,455	30,379,360	36,184,815
2022	8,295,182	29,973,771	38,268,953
2023	8,865,793	29,512,007	38,377,800
2024	9,352,341	29,022,237	38,374,578
2025-2029	100,834,881	153,913,038	254,747,919
2030-2034	63,070,000	103,309,721	166,379,721
2035-2039	84,020,000	86,429,956	170,449,956
2040-2044	113,045,000	57,416,174	170,461,174
2045-2046	127,285,000	19,370,145	146,655,145
Total	<u>\$ 523,070,213</u>	<u>\$ 569,929,192</u>	<u>\$ 1,092,999,405</u>

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

As of June 30, 2019 the School has various notes payable with financial institutions totaling \$4,698,053 bearing interest at rates ranging from 4.85% to 5.75%. Principal and interest payments ranging from \$397 to \$135,306 are due monthly until maturity ranging from June 2020 through September 2023. The notes payable are secured by vehicles and furniture and equipment.

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

2020	\$ 1,497,849
2021	1,552,514
2022	1,368,391
2023	151,217
2024	128,082

Interest expense on long-term debt for the year ended June 30, 2019 totaled \$28,380,807.

9. Defined Benefit Pension Plan

The School 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.

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

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 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 School's participation in the Plan for the year ended June 30, 2019 is as follows:

Legal Name of Plan:	Teacher Retirement System of Texas
EIN/Pension Plan Number:	N/A
Total Plan Assets:	\$177,944,103,876
Accumulated Benefit Obligations:	\$207,410,708,945
Plan funded percentage:	80.5% funded
Is plan covered by collective bargaining agreements?	No
Employer contributions to the plan:	\$1,814,607
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 year ended June 30, 2019, full-time employees of the School were covered by a health insurance plan. The School contributed \$367 per month per employee for the period from September 1, 2018 to June 30, 2019 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.

International American Education Federation, Inc.

Notes to Consolidated Financial Statements

11. Commitments and Contingencies

The School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to 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 School 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 School 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 several of the School's campuses.

The School 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, 2019, the amount of property taxes in question, including penalties and interest totaled approximately \$5,100,000.

12. Functional Allocation of Expenses

Functional allocation of expenses

Expenses are reported by their functional classification as program services or management and general or fundraising. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the School exists. Fundraising activities include the solicitation of contributions of money, securities, material, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefited. Salaries and related costs are charged directly either to program services, fundraising or administration based on actual time worked in each area. Information technology costs, depreciation, interest expense, and occupancy costs are allocated based on whether the costs are associated with instructional campuses (program services) or with administrative buildings.

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

The School's expenses by natural classification and function are as follows for the year ended June 30, 2019:

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Costs	Debt	Total
Program Services:						
Instructional and Instructional related services	\$ 77,458,116	\$ 4,565,153	\$ 6,639,541	\$ 1,993,385	\$ 22,419,390	\$ 113,075,585
Instructional and school leadership	1,134,363	547,996	6,139	66,433	326,796	2,081,727
Support Services - Student	7,124,227	7,425,270	747,107	673,572	2,003,645	17,973,821
Support Services - Nonstudent based	1,673,662	9,664,374	1,396,482	11,155,170	466,619	24,356,307
Ancillary services	362,369	238,627	63,854	18,819	101,507	785,176
Total program services	87,752,737	22,441,420	8,853,123	13,907,379	25,317,957	158,272,616
Support Services:						
Instructional and school leadership	8,820,870	77,028	89,731	65,618	2,535,077	11,588,324
Administrative support services	3,711,396	653,680	86,903	999,138	949,765	6,400,882
Support services - nonstudent based	1,290,959	1,486,268	600,726	3,846,258	364,524	7,588,735
Fundraising	-	-	-	21,673	-	21,673
Total support services	13,823,225	2,216,976	777,360	4,932,687	3,849,366	25,599,614
Total expenses	\$ 101,575,962	\$ 24,658,396	\$ 9,630,483	\$ 18,840,066	\$ 29,167,323	\$ 183,872,230

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

13. Liquidity and Availability of Resources

The School relies on state aid and federal grants to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a twelve-month period. The School considers all expenditures related to its ongoing activities of education as well as the conduct of services undertaken to support those activities, to be general expenditures. As part of the School's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due or as additional funding opportunities are presented by maintaining a significant portion of its assets in cash. The School's financial assets available within one year of the consolidated statements of financial position date for general expenditure are as follows:

Financial assets at June 30, 2019:	
Cash and cash equivalents	\$ 5,508,896
Cash and cash equivalents held in trust	52,481,970
Investments	16,098,557
Due from government agencies	27,537,972
Accounts receivable	103,528
Other receivable	116,779
	<u>101,847,702</u>
Less financial assets not available for general expenditure:	
Cash restricted for long-term purposes	<u>(52,481,970)</u>
Total financial assets available for general expenditure	<u>\$ 49,365,732</u>

14. Subsequent Events

The School evaluated subsequent events through 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, 2019

	International Leadership of Texas	International Leadership of Texas - Global	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,395,789	\$ 1,113,107	\$ -	\$ 5,508,896
Cash and cash equivalents held in trust	52,481,970	-	-	52,481,970
Investments	16,098,557	-	-	16,098,557
Due from government agencies	27,537,972	-	-	27,537,972
Accounts receivable, net	-	103,528	-	103,528
Other receivable	116,779	-	-	116,779
Other current assets	240,525	383,259	(376,755)	247,029
Total current assets	100,871,592	1,599,894	(376,755)	102,094,731
Property and equipment, net	448,951,595	9,878	-	448,961,473
Total assets	<u>\$ 549,823,187</u>	<u>\$ 1,609,772</u>	<u>\$ (376,755)</u>	<u>\$ 551,056,204</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 2,321,445	\$ 42,192	\$ -	\$ 2,363,637
Accrued payroll	12,689,714	-	-	12,689,714
Accrued interest	12,892,883	-	-	12,892,883
Student activity funds	795,660	-	-	795,660
Deferred revenue	376,755	1,262,880	(376,755)	1,262,880
Current maturities of finance lease liability	2,096,879	-	-	2,096,879
Current maturities of long-term debt	3,994,410	-	-	3,994,410
Total current liabilities	35,167,746	1,305,072	(376,755)	36,096,063
Long-term liabilities:				
Finance lease liability	1,094,792	-	-	1,094,792
Long-term debt, net of debt issuance costs	511,438,704	-	-	511,438,704
Total liabilities	547,701,242	1,305,072	(376,755)	548,629,559
Net assets (deficit):				
Without donor restrictions	(1,644,932)	304,700	-	(1,340,232)
With donor restrictions	3,766,877	-	-	3,766,877
Total net assets	2,121,945	304,700	-	2,426,645
Total liabilities and net assets	<u>\$ 549,823,187</u>	<u>\$ 1,609,772</u>	<u>\$ (376,755)</u>	<u>\$ 551,056,204</u>

See notes to consolidated financial statements.

International American Education Federation, Inc
Consolidating Statement of Activities
Year Ended June 30, 2019

	International Leadership of Texas	International Leadership of Texas - Global	Eliminations	Total
Revenue and other support:				
Local support:				
SSA- Local revenues from member districts	\$ 663,167	\$ 1,990,170	(663,167)	\$ 1,990,170
Interest, dividends, gains, and losses	925,675	-	-	925,675
Foundations, other non-profit organizations, gifts, and bequests	87,061	32,851	-	119,912
Other revenues from local sources	1,026,216	130,587	-	1,156,803
Food service activity	1,431,501	-	-	1,431,501
Total local support	4,133,620	2,153,608	(663,167)	5,624,061
State program revenues:				
Per capita apportionment	7,414,021	-	-	7,414,021
Foundation school program act revenue	159,222,845	-	-	159,222,845
State program revenue distributed by TEA	1,289,884	-	-	1,289,884
Total state program revenue	167,926,750	-	-	167,926,750
Federal program revenues:				
National school breakfast and lunch program	6,411,172	-	-	6,411,172
Federal program revenue distributed by TEA	11,880,557	-	-	11,880,557
Total federal program revenue	18,291,729	-	-	18,291,729
Total revenue and other support	190,352,099	2,153,608	(663,167)	191,842,540

See notes to consolidated financial statements.

International American Education Federation, Inc
Consolidating Statement of Activities
Year Ended June 30, 2019

	International Leadership of Texas	International Leadership of Texas - Global	Eliminations	Total
Expenses:				
Instruction	\$ 83,048,798	\$ 1,040,015	\$ (663,167)	\$ 83,425,646
Instruction resources and media	848,061	-	-	848,061
Curriculum and instructional staff development	6,382,488	-	-	6,382,488
Instructional leadership	1,249,193	-	-	1,249,193
School leadership	9,064,465	-	-	9,064,465
Guidance, counseling, evaluation services	4,454,270	-	-	4,454,270
Social work services	8,417	-	-	8,417
Health services	1,478,531	-	-	1,478,531
Student transportation	1,013,865	-	-	1,013,865
Food services	7,749,470	-	-	7,749,470
Extracurricular activities	1,760,143	-	-	1,760,143
General administration	4,336,528	1,114,589	-	5,451,117
Facilities maintenance and operations	22,128,580	-	-	22,128,580
Security and monitoring services	1,761,108	-	-	1,761,108
Data processing services	7,224,211	-	-	7,224,211
Community services	683,669	-	-	683,669
Debt service	29,167,323	-	-	29,167,323
Fundraising	21,673	-	-	21,673
Total expenses	<u>182,380,793</u>	<u>2,154,604</u>	<u>(663,167)</u>	<u>183,872,230</u>
Excess of revenues over expenses from operations	7,971,306	(996)	-	7,970,310
Non-operating activities:				
Other expense	(70,809)	-	-	(70,809)
Total non-operating activities	<u>(70,809)</u>	<u>-</u>	<u>-</u>	<u>(70,809)</u>
Change in net assets (deficit)	7,900,497	(996)	-	7,899,501
Net assets (deficit) at beginning of year	<u>(5,778,552)</u>	<u>305,696</u>	<u>-</u>	<u>(5,472,856)</u>
Net assets at end of year	<u>\$ 2,121,945</u>	<u>\$ 304,700</u>	<u>\$ -</u>	<u>\$ 2,426,645</u>

See notes to consolidated financial statements.

Supplemental Information Required by TEA

International Leadership of Texas
Statement of Financial Position
June 30, 2019

Assets

Current assets:

Cash and cash equivalents	\$ 4,395,789
Cash and cash equivalents held in trust	52,481,970
Investments	16,098,557
Due from government agencies	27,537,972
Other receivable	116,779
Other current assets	<u>240,525</u>

Total current assets 100,871,592

Property and equipment, net 448,951,595

Total assets \$ 549,823,187

Liabilities and Net Assets

Current liabilities:

Accounts payable	2,321,445
Accrued payroll	12,689,714
Accrued interest	12,892,883
Student activity funds	795,660
Deferred revenue	376,755
Current maturities of finance lease liability	2,096,879
Current maturities of long-term debt	<u>3,994,410</u>

Total current liabilities 35,167,746

Long-term liabilities:

Finance lease liability	1,094,792
Long-term debt, net of debt issuance costs	<u>511,438,704</u>

Total liabilities 547,701,242

Net assets (deficit):

Without donor restrictions	(1,644,932)
With donor restrictions	<u>3,766,877</u>

Total net assets 2,121,945

Total liabilities and net assets \$ 549,823,187

See notes to consolidated financial statements.

International Leadership of Texas
Statement of Activities
Year Ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and other support:			
Local support:			
5722 SSA - Local revenues from member districts	\$ 663,167	\$ -	\$ 663,167
5742 Interest, dividends, gains, and losses	925,675	-	925,675
5744 Foundations, other non-profit organizations, gifts, and bequests	87,061	-	87,061
5749 Other revenues from local sources	1,026,216	-	1,026,216
5751 Food service activity	1,431,501	-	1,431,501
Total local support	4,133,620	-	4,133,620
State program revenues:			
5811 Per capita apportionment	-	7,414,021	7,414,021
5812 Foundation school program act revenue	-	159,222,845	159,222,845
5829 State program revenue distributed by TEA	-	1,289,884	1,289,884
Total state program revenue	-	167,926,750	167,926,750
Federal program revenues:			
5921 National school breakfast and lunch program	-	6,411,172	6,411,172
5929 Federal program revenue distributed by TEA	-	11,880,557	11,880,557
Total federal program revenue	-	18,291,729	18,291,729
Net assets released from restrictions			
Restrictions satisfied by payments	182,451,602	(182,451,602)	-
Total revenue and other support	186,585,222	3,766,877	190,352,099

See notes to consolidated financial statements.

International Leadership of Texas
Statement of Activities
Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Expenses:			
11 Instruction	\$ 83,048,798	\$ -	\$ 83,048,798
12 Instruction resources and media	848,061	-	848,061
13 Curriculum and instructional staff development	6,382,488	-	6,382,488
21 Instructional leadership	1,249,193	-	1,249,193
23 School leadership	9,064,465	-	9,064,465
31 Guidance, counseling, evaluation services	4,454,270	-	4,454,270
32 Social work services	8,417	-	8,417
33 Health services	1,478,531	-	1,478,531
34 Student transportation	1,013,865	-	1,013,865
35 Food services	7,749,470	-	7,749,470
36 Extracurricular activities	1,760,143	-	1,760,143
41 General administration	4,336,528	-	4,336,528
51 Facilities maintenance and operations	22,128,580	-	22,128,580
52 Security and monitoring services	1,761,108	-	1,761,108
53 Data processing services	7,224,211	-	7,224,211
61 Community services	683,669	-	683,669
71 Debt service	29,167,323	-	29,167,323
81 Fundraising	21,673	-	21,673
Total expenses	<u>182,380,793</u>	<u>-</u>	<u>182,380,793</u>
Excess of revenues over expenses from operations	4,204,429	3,766,877	7,971,306
Non-operating activities:			
8911 Other expense	(70,809)	-	(70,809)
Total non-operating activities	<u>(70,809)</u>	<u>-</u>	<u>(70,809)</u>
Change in net assets (deficit)	4,133,620	3,766,877	7,900,497
Net deficit at beginning of year	<u>(5,778,552)</u>	<u>-</u>	<u>(5,778,552)</u>
Net assets (deficit) at end of year	<u>\$ (1,644,932)</u>	<u>\$ 3,766,877</u>	<u>\$ 2,121,945</u>

See notes to consolidated financial statements.

International Leadership of Texas
Statement of Cash Flows
Year Ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	\$ 7,900,497
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	14,951,070
Amortization of bond premium	125,622
Amortization of debt issuance costs	254,550
Changes in assets and liabilities:	
Due from TEA	(4,545,614)
Other receivable	1,397,216
Other current assets	464,395
Accounts payable	1,411,893
Wages payable	962,073
Accrued expenses	10,852,458
Student funds	112,840
Deferred revenue	105,685
	<hr/>
Net cash provided by operating activities	33,992,685
Cash flows from investing activities:	
Purchases of investments	(16,098,557)
Purchases of property and equipment	(275,738)
	<hr/>
Net cash used by investing activities	(16,374,295)
Cash flows from financing activities:	
Net proceeds from issuance of long-term debt	44,544,518
Payment of debt issuance costs	(6,250,327)
Principal payments on finance lease liabilities	(9,926,559)
Principal payments on long-term debt	(3,822,729)
	<hr/>
Net cash provided by financing activities	24,544,903
Net increase in cash and cash equivalents	42,163,293
Cash and cash equivalents at beginning of year	<hr/> 14,714,466
Cash and cash equivalents at end of year	<hr/> <u>\$ 56,877,759</u>
Reconciliation of cash and cash equivalents reported within the statement of financial position to the statement of cash flows:	
Cash and cash equivalents	\$ 4,395,789
Cash and cash equivalents held in trust	52,481,970
	<hr/>
Cash and cash equivalents reported on the statement of cash flows	<u>\$ 56,877,759</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 15,469,374
Supplemental schedule of noncash investing and financing activities:	
Payoff of finance lease liabilities through issuance of long-term debt	\$ 346,459,458
Property and equipment acquired through issuance of long-term debt	\$ 70,405,057
Payoff of other liabilities through issuance of long-term debt	\$ 4,550,000
Property and equipment acquired through finance lease	\$ 2,013,919

See notes to consolidated financial statements.

International Leadership of Texas
Schedule of Expenses
Year Ended June 30, 2019

<u>Object Code</u>	<u>Description</u>	<u>Amount</u>
6100	Payroll costs	\$101,185,350
6200	Professional and contracted services	24,548,145
6300	Supplies and materials	9,569,975
6400	Other operating costs	17,910,000
6500	Debt service	<u>29,167,323</u>
	Total expenses	<u>\$182,380,793</u>

See notes to consolidated financial statements.

International Leadership of Texas
Schedule of Capital Assets
June 30, 2019

Description	Ownership Interest	
	Local	State
1510 Land	\$ 519,788	\$ 38,319,936
1520 Buildings and improvements	4,376,666	425,333,436
1531 Vehicles	74,806	2,327,822
1549 Furniture and equipment (finance lease)	743,325	17,210,726
1570 Accumulated depreciation	(563,770)	(29,319,491)
1570 Accumulated depreciation (finance lease)	(458,864)	(9,612,785)
	<u>\$ 4,691,951</u>	<u>\$ 444,259,644</u>

See notes to consolidated financial statements.

International Leadership of Texas
Budgetary Comparison Schedule
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenue and other support:				
Local support:				
5722 SSA- Local revenues from member districts	\$ 800,000	\$ 663,167	\$ 663,167	\$ -
5742 Interest, dividends, gains, and losses	90,000	925,675	925,675	-
5744 Foundations, other non-profit organizations, gifts, and bequests	2,500	87,061	87,061	-
5749 Other revenues from local sources	439,500	1,026,216	1,026,216	-
5750 Food service activity	1,679,620	1,431,501	1,431,501	-
State program revenues:				
5811 Per capita apportionment	2,349,866	7,414,021	7,414,021	-
5812 Foundation school program act revenue	154,635,587	159,222,845	159,222,845	-
5829 State program revenue distributed by TEA	1,164,000	1,289,884	1,289,884	-
Federal program revenues:				
5920 Federal program revenue distributed by TEA	8,387,839	18,291,729	18,291,729	-
Total revenue and other support	169,548,912	190,352,099	190,352,099	-
Expenses:				
11 Instruction	73,224,196	83,048,798	83,048,798	-
12 Instruction resources and media	845,135	848,061	848,061	-
13 Curriculum and instructional staff development	3,830,325	6,382,488	6,382,488	-
21 Instructional leadership	727,908	1,249,193	1,249,193	-
23 School leadership	8,377,624	9,064,465	9,064,465	-
31 Guidance, counseling, evaluation services	3,569,217	4,454,270	4,454,270	-
32 Social work services	5,000	8,417	8,417	-
33 Health services	1,453,140	1,478,531	1,478,531	-
34 Student transportation	942,559	1,013,865	1,013,865	-
35 Food services	200,000	7,749,470	7,749,470	-
36 Extracurricular activities	1,988,389	1,760,143	1,760,143	-
41 General administration	3,986,526	4,336,528	4,336,528	-
51 Facilities maintenance and operations	41,897,452	22,128,580	22,128,580	-
52 Security and monitoring service	1,692,250	1,761,108	1,761,108	-
53 Data processing services	5,373,280	7,224,211	7,224,211	-
61 Community services	839,092	683,669	683,669	-
71 Debt service	7,431,130	29,167,323	29,167,323	-
81 Fundraising	-	21,673	21,673	-
Total expenses	156,383,223	182,380,793	182,380,793	-
Excess revenues over expenses from operations	13,165,689	7,971,306	7,971,306	-
Non-operating activities:				
8911 Other expense	-	(70,809)	(70,809)	-
Total non-operating activities	-	(70,809)	(70,809)	-
Change in net assets (deficit)	13,165,689	7,900,497	7,900,497	-
Net deficit at beginning of year	(5,778,552)	(5,778,552)	(5,778,552)	-
Net assets at end of year	\$ 7,387,137	\$ 2,121,945	\$ 2,121,945	\$ -

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 School), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 18, 2019. 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 School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School'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 School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
October 18, 2019

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 School's major federal programs for the year ended June 30, 2019. The School'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 School'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 School'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 School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School 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 year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the School 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 School'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 School'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.

Sutton Frost Carey

A Limited Liability Partnership

Arlington, Texas
October 18, 2019

International American Education Federation, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

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
ESEA Title I Part A – Improving Basic Programs CFDA 84.010A

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

Section IV – Summary of Prior Year Audit Findings

Audit findings: None

International American Education Federation, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

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	\$ 973,151
National School Lunch Program	10.555	71301801	<u>5,212,914</u>
Total Passed through the Texas Education Agency			6,186,065
Passed through Texas Department of Agriculture:			
Commodities - Noncash assistance	10.555	3001201	<u>225,107</u>
Total Passed through Texas Department of Agriculture			<u>225,107</u>
Total Child Nutrition Cluster			<u>6,411,172</u>
Total U.S. Department of Agriculture			6,411,172
U.S. Department of Education:			
Passed through Texas Education Agency:			
Special Education-Grants to States (IDEA, Part B)	84.027A	17660001057848600	3,431,852
Charter School Program	84.282A	18590101711	739,845
Career and Technical - Basic Grant	84.048	19420006057848	206,954
Summer School LEP	84.369A	69551702	<u>267,241</u>
Total Passed through the Texas Education Agency			4,645,892
Passed through Region X Education Service Center:			
ESEA Title I Part A - Improving Basic Programs	84.010A	18610101057950	5,104,712
ESEA Title II Part A - Teacher & Principal Training	84.367A	18694501057950	574,123
Title III, Language Instruction LEP	84.365A	18671001057950	<u>633,219</u>
Total Passed through Region X Education Service Center			<u>6,312,054</u>
Total U.S. Department of Education			<u>10,957,946</u>
Total Expenditures of Federal Awards			<u><u>\$17,369,118</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 School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

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 School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

2. Non-Cash Federal Awards

The School received non-cash awards in the form of food commodities totaling \$225,107 for the year ended June 30, 2019.