

**INTERNATIONAL AMERICAN  
EDUCATION FEDERATION, INC.**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
AUGUST 31, 2015**



# INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

CERTIFICATE OF BOARD

AUGUST 31, 2015

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

Dallas  
County

057-848  
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  approved  disapproved for the year ended August 31, 2015, at a meeting of the governing body of the charter holder on the 13<sup>th</sup> day of January, 2016.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

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

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

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of International American Education Federation, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International American Education Federation, Inc. as of August 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 17 through 28 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2016, on our consideration of International American Education Federation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering International American Education Federation, Inc.'s internal control over financial reporting and compliance.

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

Waco, Texas  
January 12, 2016

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GENERAL PURPOSE FINANCIAL STATEMENTS

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**STATEMENT OF FINANCIAL POSITION**

**AUGUST 31, 2015**

**ASSETS**

	<u>2015</u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 14,296,523
Due from other governments	2,069,720
Accounts receivable, net	<u>12,149</u>
Total Current Assets	<u>16,378,392</u>
Capitalized bond issuance costs	765,400
<b>PROPERTY AND EQUIPMENT</b>	
Land	8,343,537
Building and improvements	82,641,786
Furniture and equipment	4,964,927
Vehicles	45,722
Less accumulated depreciation	<u>( 1,352,234)</u>
Total Property and Equipment	<u>94,643,738</u>
Total Assets	<u>111,787,530</u>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	980,630
Due to other governments	104,919
Deferred revenue	1,638,149
Accrued wages payable	708,959
Payroll deductions and withholdings	287,713
Current portion of long-term debt	<u>7,625</u>
Total Current Liabilities	<u>3,727,995</u>

**LONG-TERM LIABILITIES**

Long-term debt	<u>108,790,414</u>
Total Long-Term Liabilities	<u>108,790,414</u>
Total Liabilities	<u>112,518,409</u>

**NET ASSETS**

Unrestricted	( 794,228)
Temporarily restricted	<u>63,349</u>
Total Net Assets	<u>( 730,879)</u>
Total Liabilities and Net Assets	<u>\$ 111,787,530</u>

**See independent auditors' report and notes to financial statements.**

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED AUGUST 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2015</u>
<b>REVENUE</b>			
<b>Local Revenue:</b>			
Foundations, Other Non-Profit Organizations, Gifts, and Bequests	\$ -	\$ 216,201	\$ 216,201
SSA-Local Revenues from Member Districts	1,052,234	-	1,052,234
Food Service Activity	-	349,859	349,859
Other Revenue from local sources	<u>1,051,232</u>	<u>-</u>	<u>1,051,232</u>
Total Local Revenue	<u>2,103,466</u>	<u>566,060</u>	<u>2,669,526</u>
<b>State Program Revenue:</b>			
Per Capita Apportionment	-	643,403	643,403
Foundation School Program Act Revenue	-	34,698,829	34,698,829
State Program Revenue Distributed by TEA	-	556,004	556,004
State Program Revenue Distributed by State of Texas Government Agency	<u>-</u>	<u>584</u>	<u>584</u>
Total State Program Revenue	<u>-</u>	<u>35,898,820</u>	<u>35,898,820</u>
<b>Federal Program Revenue:</b>			
National School Breakfast and Lunch Program	-	639,967	639,967
Federal Program Revenue Distributed by TEA	-	1,239,975	1,239,975
Federal Program Revenue Distributed Directly from the Federal Government	<u>-</u>	<u>85,306</u>	<u>85,306</u>
Total Federal Program Revenue	<u>-</u>	<u>1,965,248</u>	<u>1,965,248</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>38,477,219</u>	<u>( 38,477,219)</u>	<u>-</u>
Total Revenue	<u>40,580,685</u>	<u>( 47,091)</u>	<u>40,533,594</u>
<b>EXPENSES</b>			
<b>Program Services:</b>			
Instruction	21,110,533	-	21,110,533
Instruction Resources and Media	90,868	-	90,868
Curriculum and Instructional Staff Development	435,997	-	435,997
Instructional Leadership	378,364	-	378,364
School Leadership	2,657,072	-	2,657,072
Guidance, Counseling, and Evaluating Services	768,063	-	768,063
Social Work Services	679	-	679
Health Services	467,568	-	467,568
Student Transportation	20,017	-	20,017
Food Services	1,307,722	-	1,307,722
Extracurricular Activities	1,515,813	-	1,515,813
General Administration	1,168,388	-	1,168,388
Facilities Maintenance and Operations	8,810,282	-	8,810,282
Security and Monitoring Services	362,985	-	362,985
Data Processing	359,775	-	359,775
Community Services	408,643	-	408,643
Debt Service	<u>618,099</u>	<u>-</u>	<u>618,099</u>
Total Expenses	<u>40,480,868</u>	<u>-</u>	<u>40,480,868</u>
<b>CHANGE IN NET ASSETS</b>	<u>99,817</u>	<u>( 47,091)</u>	<u>52,726</u>
<b>NET ASSETS, BEGINNING</b>	<u>( 894,045)</u>	<u>110,440</u>	<u>( 783,605)</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ ( 794,228)</u></u>	<u><u>\$ 63,349</u></u>	<u><u>\$ ( 730,879)</u></u>

**See independent auditors' report and notes to financial statements.**

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED AUGUST 31, 2015**

	<u>2015</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in net assets	\$ 52,726
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	898,196
(Increase) decrease in due from TEA	( 412,966)
(Increase) decrease in accounts receivable	( 7,550)
(Increase) decrease in deferred expenses	100,000
Increase (decrease) in accounts payable	501,133
Increase (decrease) in due to other governments	104,919
Increase (decrease) in deferred revenue	937,454
Increase (decrease) in wages payable	276,844
Increase (decrease) in payroll deductions and withholdings	<u>247,729</u>
Net Cash Provided (Used) by Operating Activities	<u>2,698,485</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of land, buildings, and equipment	( 93,708,636)
Net Cash Provided (Used) by Investing Activities	<u>( 93,708,636)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Capitalization of debt issuance costs	( 722,799)
Issuance of long-term debt	111,412,192
Principal payments on debt	<u>( 7,367,548)</u>
Net Cash Provided (Used) by Financing Activities	<u>103,321,845</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	12,311,694
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,984,829</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 14,296,523</u>

**See independent auditors' report and notes to financial statements.**

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# INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

##### 1. Reporting Entity

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

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

##### 2. Corporate Operations

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

#### B. Basis of Accounting and Presentation

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

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

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

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

**Permanently restricted** – net assets required to be maintained in perpetuity with only the income to be used for the charter holder’s activities due to donor-imposed restrictions.

**C. Use of Estimates**

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

**D. Federal Income Tax Status**

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

**E. Contributions**

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

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

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

**F. Cash and Cash Equivalents**

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

## **G. Capital Assets**

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

## **H. Capitalized Bond Issuance Costs**

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

## **I. Personal Leave**

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

## **J. Functional Allocation of Expenses**

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

## **II. CASH DEPOSITS**

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

At August 31, 2015, the combined carrying amount of the Organization's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) were entirely covered by FDIC insurance or by pledged collateral held by the Organization's agent bank in the Organization's name.

## **III. INVESTMENTS**

The Organization had no investments in marketable securities at August 31, 2015.

#### IV. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2015, the Organization had no material liability for accrued sick leave or vacation leave.

#### V. RETIREMENT BENEFITS

Plan Description – The Organization contributes to the Teacher Retirement System of Texas (the System), a public employee’s retirement system. It is a cost-sharing, multiple-employer defined benefit plan. The System provides service retirement and disability retirement benefits, and death benefits, to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in the Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature.

Participating employers in the System are legal separate entities from the State and from each other. Contributions to the system by one employer may be used for the benefits of a plan member of another participating employer. The unfunded obligations are passed along to the participant employers. There is not withdrawal penalty for a plan member for leaving the System.

Information with respect to the System is shown in the following table:

Name of Plan	Federal Employer ID/Plan Number	Certified Zone Status	Expiration Date of Collective Bargaining Agreement	Improvement or Rehabilitation Plan	Surcharge Paid	Contributions Made 2014-2015
Teacher Retirements System of Texas	n/a	Unknown	n/a	n/a	\$ 16,372	\$ 445,723
Total contributions made					<u>\$ 16,372</u>	<u>\$ 445,723</u>

Notes to the table:

1. Certified Zone Status (as defined by the Pension Protection Act) represents the level at which the plan is funded. Details of the funding status are as follows:
  - i. Total plan assets - \$157,261,707,241.
  - ii. Accumulated benefit obligations - \$159,496,075,886.
  - iii. The System is 83.25% funded.
2. There is no collective-bargaining agreement.
3. Based on the audited GASB 68 allocation schedules from the TRS website as of August 31, 2014, the year-end of the System, contributions made to the system did not represents more than 5% of the total contributions received by the System.

#### 4. Contribution Rates:

	<u>2015</u>	<u>2014</u>
Member	6.7%	6.4%
State	6.8%	6.8%
Employer	6.8%	6.8%

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

In addition, employees may contribute 0.65% of their salary and the Organization must contribute 0.55% of the salary of each active employee to TRS-Care (The TRS health plan for retired employees). The total amount contributed to TRS-Care for the year was \$250,510 which is equal to the employees' contributions and the Organization's required contributions for the year.

#### **VI. HEALTH CARE COVERAGE**

During the year ended August 31, 2015, full-time employees of International American Education Federation, Inc. were covered by a health insurance plan (the Plan). The Organization contributed \$325 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

#### **VII. COMMITMENTS AND CONTIGENCIES**

International American Education Federation, Inc. receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agencies. The programs administered by the Organization have complex compliance requirements and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the Texas Education Agency or the grantor agencies. In the opinion of the Organization, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

## VIII. CAPITAL ASSETS

Capital assets at August 31, 2015 were as follows:

	Balance 09/01/14	Additions	Deletions	Balance 08/31/15
Land	\$ -	\$ 8,343,537	\$ -	\$ 8,343,537
Building and improvements	-	82,641,786	-	82,641,786
Vehicles	45,722	-	-	45,722
Furniture and equipment (capital leases)	2,241,614	2,723,313	-	4,964,927
Accumulated depreciation	( 454,038)	( 898,196)	-	( 1,352,234)
	<u>\$ 1,833,298</u>	<u>\$ 92,810,440</u>	<u>\$ -</u>	<u>\$ 94,643,738</u>

## IX. ECONOMIC DEPENDENCY

During the year ended August 31, 2015, International American Education Federation, Inc. earned revenue of \$35,898,820 from the Texas Education Agency (TEA). These amounts constitute approximately 88.7% of total revenues earned. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the Organization to continue to provide the current level of services to its students.

## X. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the year ending August 31, 2015 consisted of the following:

	2015
Road Scholars	\$ 9,984
Confucius Institute	50,744
Ed Rachel Foundation Grant	2,621
	<u>\$ 63,349</u>

## XI. DEFERRED REVENUE

Deferred revenue at August 31, 2015 consisted of the following:

	2015
Grants	\$ 2,550
Student activities	259,439
Foreign student housing	693,165
Foreign student tuition	682,995
	<u>\$ 1,638,149</u>

## XII. LONG-TERM DEBT

Long-term debt at August 31, 2015 consisted of the following:

	<u>2015</u>
Bonds and capital leases consist of the following:	
\$105,680,000 Education Revenue Bonds Series A, issued by Clifton Higher Education Finance Corporation. The bonds bear interest at a rate of 4.625%-5.75% and are interest only until August of 2020. The bonds mature in August of 2045. The bonds were used to purchase school buildings. The bonds are secured by real property.	\$ 105,680,000
\$5,360,000 Taxable Education Revenue Bonds Series B, issued by Clifton Higher Education Finance Corporation. The bonds bear interest at a rate of 6.125% and are interest only until August of 2018. The bonds mature in August of 2020. The bonds were used to purchase school buildings. The bonds are secured by real property.	5,360,000
\$22,500 capital lease, issued by C2M Tech. The lease bears interest at a rate of 6.5% and is due in monthly installments of \$689. The capital lease expires in July of 2018. The capital lease was used for lawn equipment. The capital lease is secured by the equipment.	<u>22,500</u>
Total Debt	<u>111,062,500</u>
Less Unamortized Discount	<u>( 2,264,461)</u>
Less Current Portion of Long-term Debt	<u>( 7,625)</u>
Total Long-term Debt	<u>\$ 108,790,414</u>

Future maturities of long-term debt at August 31, 2015 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 7,625	\$ 5,918,573	\$ 5,926,198
2017	7,530	6,122,020	6,129,550
2018	1,817,345	6,121,516	7,938,861
2019	1,920,000	6,010,413	7,930,413
2020	2,040,000	5,892,813	7,932,813
2021-2025	11,845,000	27,823,656	39,668,656
2026-2030	14,975,000	24,683,325	39,658,325
2031-2035	19,365,000	20,296,288	39,661,288
2036-2040	25,435,000	14,225,213	39,660,213
2041-2045	<u>33,650,000</u>	<u>6,020,250</u>	<u>39,670,250</u>
Total	<u>\$ 111,062,500</u>	<u>\$ 123,114,067</u>	<u>\$ 234,176,567</u>

## **XII. LEASE COMMITMENTS**

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

<u>Year Ended August 31,</u>	
2016	\$ 989,391
2017	1,037,899
2018	953,586
2019	975,416
2020	1,002,784
Thereafter	<u>22,812,621</u>
Total	<u>\$ 27,771,697</u>

Operating lease expenses were approximately \$6,604,171 for the year ended August 31, 2015.

## **XIII. NEW DEBT**

The Organization issued \$105,680,000 Education Revenue Bonds Series 2015A and \$5,360,000 Taxable Education Revenue Bonds Series 2015B on August 27, 2015. The bonds will be used for the purposes of financing the cost of acquisition, improvement, construction, renovation and equipping of certain educational facilities, classrooms and administrative spaces and for open-enrollment charter schools located in Fort Worth, Garland and Arlington, Texas, providing capitalized interest of \$2,300,000, funding a debt service reserve fund, refinancing two loans held by Vintage Bank and three capital leases held by C2M Tech, and paying the costs of issuing the Bonds. The bonds bear interest at rates of 4.625%-5.75% and 6.125% and end on August 15, 2020 and August 15, 2045 respectively.

## **XIV. FAIR VALUE MEASUREMENTS**

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

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

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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

## **XV. EVALUATION OF SUBSEQUENT EVENTS**

The Organization entered into a capital lease with C2M Tech for computer equipment and technology improvements. The lease is dated September 28, 2015 and requires monthly installments of \$11,963 and carries an interest rate of 10%. The lease expires on September 28, 2020. The lease is secured by the equipment.

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## SPECIFIC-PURPOSE FINANCIAL STATEMENTS

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# INTERNATIONAL LEADERSHIP OF TEXAS

## STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2015

### ASSETS

	<u>2015</u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 13,687,500
Due from TEA	2,069,720
Accounts receivable, net	<u>12,149</u>
Total Current Assets	<u>15,769,369</u>
Capitalized bond issuance costs	765,400
<b>PROPERTY AND EQUIPMENT</b>	
Land	8,343,537
Building and improvements	82,641,786
Furniture and equipment	4,964,927
Vehicles	45,722
Less accumulated depreciation	<u>( 1,352,234)</u>
Total Property and Equipment	<u>94,643,738</u>
Total Assets	<u>111,178,507</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	932,339
Due to other governments	104,919
Deferred revenue	944,984
Accrued wages payable	708,959
Payroll deductions and withholdings	287,235
Current portion of long-term debt	<u>7,625</u>
Total Current Liabilities	<u>2,986,061</u>
<b>LONG-TERM LIABILITIES</b>	
Long-term debt	<u>108,790,414</u>
Total Long-Term Liabilities	<u>108,790,414</u>
Total Liabilities	<u>111,776,475</u>
<b>NET ASSETS</b>	
Unrestricted	( 661,317)
Temporarily restricted	<u>63,349</u>
Total Net Assets	<u>( 597,968)</u>
Total Liabilities and Net Assets	<u>\$ 111,178,507</u>

See independent auditors' report and notes to financial statements.

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**STATEMENT OF FINANCIAL POSITION**

**AUGUST 31, 2015**

**ASSETS**

	<u>2015</u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ <u>609,023</u>
Total Current Assets	<u>609,023</u>
Total Assets	<u>609,023</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	48,291
Deferred revenue	693,165
Payroll deductions and withholdings	<u>478</u>
Total Current Liabilities	<u>741,934</u>
Total Liabilities	<u>741,934</u>
<b>NET ASSETS</b>	
Unrestricted	( <u>132,911</u> )
Total Net Assets	( <u>132,911</u> )
Total Liabilities and Net Assets	<u>\$ 609,023</u>

**See independent auditors' report and notes to financial statements.**

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# INTERNATIONAL LEADERSHIP OF TEXAS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2015

	Unrestricted	Temporarily Restricted	Totals 2015
<b>REVENUE</b>			
<b>Local Revenue:</b>			
Foundations, Other Non-Profit Organizations, Gifts, and Bequests	\$ -	\$ 216,201	\$ 216,201
SSA-Local Revenues from Member Districts	479,881	-	479,881
Food Service Activity	-	349,859	349,859
Other Revenue from local sources	1,048,778	-	1,048,778
Total Local Revenue	1,528,659	566,060	2,094,719
<b>State Program Revenue:</b>			
Per Capita Apportionment	-	643,403	643,403
Foundation School Program Act Revenue	-	34,698,829	34,698,829
State Program Revenue Distributed by TEA	-	556,004	556,004
State Program Revenue Distributed by State of Texas Government Agency	-	584	584
Total State Program Revenue	-	35,898,820	35,898,820
<b>Federal Program Revenue:</b>			
National School Breakfast and Lunch Program	-	639,967	639,967
Federal Program Revenue Distributed by TEA	-	1,239,975	1,239,975
Federal Program Revenue Distributed Directly from the Federal Government	-	85,306	85,306
Total Federal Program Revenue	-	1,965,248	1,965,248
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	38,477,219	( 38,477,219)	-
Total Revenue	40,005,878	( 47,091)	39,958,787
<b>EXPENSES</b>			
<b>Program Services:</b>			
Instruction	21,073,471	-	21,073,471
Instruction Resources and Media	90,868	-	90,868
Curriculum and Instructional Staff Development	435,997	-	435,997
Instructional Leadership	378,364	-	378,364
School Leadership	2,657,072	-	2,657,072
Guidance, Counseling, and Evaluating Services	768,063	-	768,063
Social Work Services	679	-	679
Health Services	467,568	-	467,568
Student Transportation	20,017	-	20,017
Food Services	1,274,413	-	1,274,413
Extracurricular Activities	1,229,627	-	1,229,627
General Administration	934,267	-	934,267
Facilities Maintenance and Operations	8,802,199	-	8,802,199
Security and Monitoring Services	362,985	-	362,985
Data Processing	359,775	-	359,775
Community Services	407,330	-	407,330
Debt Service	613,666	-	613,666
Total Expenses	39,876,361	-	39,876,361
<b>CHANGE IN NET ASSETS</b>	129,517	( 47,091)	82,426
<b>NET ASSETS, BEGINNING</b>	( 790,834)	110,440	( 680,394)
<b>NET ASSETS, END OF YEAR</b>	\$( 661,317)	\$ 63,349	\$( 597,968)

**See independent auditors' report and notes to financial statements.**

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED AUGUST 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2015</u>
<b>REVENUE</b>			
<b>Local Revenue:</b>			
SSA-Local Revenues from Member Districts	\$ 572,355	\$ -	\$ 572,355
Other Revenue from local sources	<u>2,452</u>	<u>-</u>	<u>2,452</u>
Total Local Revenue	<u>574,807</u>	<u>-</u>	<u>574,807</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>574,807</u>	<u>-</u>	<u>574,807</u>
<b>EXPENSES</b>			
<b>Program Services:</b>			
Instruction	37,062	-	37,062
Food Services	33,309	-	33,309
Extracurricular Activities	286,186	-	286,186
General Administration	234,121	-	234,121
Facilities Maintenance and Operations	8,083	-	8,083
Community Services	1,313	-	1,313
Debt Service	<u>4,433</u>	<u>-</u>	<u>4,433</u>
Total Expenses	<u>604,507</u>	<u>-</u>	<u>604,507</u>
<b>CHANGE IN NET ASSETS</b>	<u>( 29,700)</u>	<u>-</u>	<u>( 29,700)</u>
<b>NET ASSETS, BEGINNING</b>	<u>( 103,211)</u>	<u>-</u>	<u>( 103,211)</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$( 132,911)</u>	<u>\$ -</u>	<u>\$( 132,911)</u>

**See independent auditors' report and notes to financial statements.**

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# INTERNATIONAL LEADERSHIP OF TEXAS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2015

	<u>2015</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in net assets	\$ 82,426
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	898,196
(Increase) decrease in due from TEA	( 412,966)
(Increase) decrease in accounts receivable	( 8,799)
(Increase) decrease in deferred expenses	100,000
Increase (decrease) in accounts payable	498,500
Increase (decrease) in due to other governments	104,919
Increase (decrease) in deferred revenue	619,227
Increase (decrease) in wages payable	276,844
Increase (decrease) in payroll deductions and withholdings	247,468
Net Cash Provided (Used) by Operating Activities	<u>2,405,815</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of land, buildings, and equipment	( 93,708,636)
Net Cash Provided (Used) by Investing Activities	<u>( 93,708,636)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Capitalization of debt issuance costs	( 722,799)
Issuance of long-term debt	111,412,192
Principal payments on debt	( 7,332,548)
Net Cash Provided (Used) by Financing Activities	<u>103,356,845</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	12,054,024
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,633,476</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 13,687,500</u>

See independent auditors' report and notes to financial statements.

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED AUGUST 31, 2015**

	<u>2015</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in net assets	\$( 29,700)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	1,249
Increase (decrease) in accounts payable	2,633
Increase (decrease) in deferred revenue	318,227
Increase (decrease) in payroll deductions and withholdings	<u>261</u>
Net Cash Provided (Used) by Operating Activities	<u>292,670</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Principal payments on debt	<u>( 35,000)</u>
Net Cash Provided (Used) by Financing Activities	<u>( 35,000)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	257,670
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>351,353</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 609,023</u>

**See independent auditors' report and notes to financial statements.**

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**INTERNATIONAL LEADERSHIP OF TEXAS**

**SCHEDULE OF EXPENSES**

**FOR THE YEAR ENDED AUGUST 31, 2015**

<b>EXPENSES</b>	<u>2015</u>
6100 Payroll Costs	\$ 23,201,476
6200 Professional & Contract Services	11,227,539
6300 Supplies & Materials	2,949,881
6400 Other Operating Costs	1,883,799
6500 Debt Service	<u>613,666</u>
Total Expenses	<u>\$ 39,876,361</u>

**See independent auditors' report and notes to financial statements.**

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF EXPENSES**

**FOR THE YEAR ENDED AUGUST 31, 2015**

<b>EXPENSES</b>	<u>2015</u>
6100 Payroll Costs	\$ 110,049
6200 Professional & Contract Services	30,412
6300 Supplies & Materials	38,636
6400 Other Operating Costs	420,977
6500 Debt Service	<u>4,433</u>
Total Expenses	<u>\$ 604,507</u>

**See independent auditors' report and notes to financial statements.**

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**INTERNATIONAL LEADERSHIP OF TEXAS**

**SCHEDULE OF CAPITAL ASSETS**

**FOR THE YEAR ENDED AUGUST 31, 2015**

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ 8,343,537	\$ -	\$ -
1520 Buildings and Improvements	82,641,786	-	-
1531 Vehicles	45,722	-	-
1559 Furniture and Equipment (Capital Leases)	4,964,927	-	-
1570 Accumulated Depreciation	( 1,352,234)	-	-
Total Property and Equipment	<u>\$ 94,643,738</u>	<u>\$ -</u>	<u>\$ -</u>

**See independent auditors' report and notes to financial statements.**

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF CAPITAL ASSETS**

**FOR THE YEAR ENDED AUGUST 31, 2015**

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

**See independent auditors' report and notes to financial statements.**

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**INTERNATIONAL LEADERSHIP OF TEXAS**  
**BUDGET COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

	Budget Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUE</b>				
<b>Local Revenue:</b>				
5722 SSA-Local Revenues from Member				
Districts	-	466,376	479,881	13,505
5740 Other Local Revenue	150,000	1,910,477	1,264,979	(645,498)
5750 Food Service, Cocurricular, & Enterprising	-	329,334	349,859	20,525
Total Local Revenue	<u>150,000</u>	<u>2,706,187</u>	<u>2,094,719</u>	<u>( 611,468)</u>
<b>State Program Revenue:</b>				
5810 Foundation School Program	37,025,019	34,773,138	34,698,829	( 74,309)
5811 Per Capita Apportionment	-	643,403	643,403	-
5820 State Program Revenue Distributed by TEA	-	368,893	556,004	187,111
5839 State Revenues from State of Texas				
Government Agency	-	584	584	-
Total State Program Revenue	<u>37,025,019</u>	<u>35,786,018</u>	<u>35,898,820</u>	<u>112,802</u>
<b>Federal Program Revenue:</b>				
5920 Federal Program Revenue Distributed by TEA	1,125,000	2,242,733	1,965,248	( 277,485)
Total Federal Program Revenue	<u>1,125,000</u>	<u>2,242,733</u>	<u>1,965,248</u>	<u>( 277,485)</u>
Total Revenue	<u>38,300,019</u>	<u>40,734,938</u>	<u>39,958,787</u>	<u>( 776,151)</u>
<b>EXPENSES</b>				
11 Instructional	21,071,086	21,616,490	21,073,471	543,019
12 Instructional Resources & Media Services	-	91,040	90,868	172
13 Curriculum & Instructional Staff Development	474,483	588,707	435,997	152,710
21 Instructional Leadership	226,464	399,738	378,364	21,374
23 School Leadership	2,988,787	2,670,521	2,657,072	13,449
31 Guidance, Counseling, & Evaluation Services	805,925	798,257	768,063	30,194
32 Social Work Services	-	1,000	679	321
33 Health Services	422,922	464,658	467,568	( 2,910)
34 Transportation	50,000	28,907	20,017	8,890
35 Food Service	1,252,807	1,339,107	1,274,413	64,694
36 Extracurricular	135,436	1,850,208	1,229,627	620,581
41 General Administration	1,011,777	957,724	934,267	23,457
51 Plant Maintenance	8,041,748	8,980,538	8,802,199	178,339
52 Security & Monitoring Services	413,612	371,750	362,985	8,765
53 Data Processing Services	958,030	398,077	359,775	38,302
61 Community Services	194,206	422,040	407,330	14,710
71 Debt Service	428,267	655,463	613,666	41,797
99 Other Intergovernmental Charges	60,000	220,000	-	220,000
Total Expenses	<u>38,535,550</u>	<u>41,854,225</u>	<u>39,876,361</u>	<u>1,977,864</u>
<b>CHANGE IN NET ASSETS</b>	<u>( 235,531)</u>	<u>( 1,119,287)</u>	<u>82,426</u>	<u>1,201,713</u>
<b>NET ASSETS, BEGINNING</b>	<u>( 680,394)</u>	<u>( 680,394)</u>	<u>( 680,394)</u>	<u>-</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$( 915,925)</u>	<u>\$( 1,799,681)</u>	<u>\$( 597,968)</u>	<u>\$ 1,201,713</u>

**See independent auditors' report and notes to financial statements.**

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**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**BUDGET COMPARISON SCHEDULE**

**FOR THE YEAR ENDED AUGUST 31, 2015**

	Budget Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUE</b>				
<b>Local Revenue:</b>				
5740 Other Local Revenue	\$ -	\$ -	\$ 574,807	\$ 574,807
Total Local Revenue	-	-	574,807	574,807
Total Revenue	-	-	574,807	574,807
<b>EXPENSES</b>				
11 Instructional	-	-	37,062	( 37,062)
35 Food Service	-	-	33,309	( 33,309)
36 Extracurricular	-	-	286,186	( 286,186)
41 General Administration	-	-	234,121	( 234,121)
51 Plant Maintenance	-	-	8,083	( 8,083)
61 Community Services	-	-	1,313	( 1,313)
71 Debt Service	-	-	4,433	( 4,433)
Total Expenses	-	-	604,507	( 604,507)
<b>CHANGE IN NET ASSETS</b>	-	-	( 29,700)	( 29,700)
<b>NET ASSETS, BEGINNING</b>	( 103,211)	( 103,211)	( 103,211)	-
<b>NET ASSETS, END OF YEAR</b>	<u>\$( 103,211)</u>	<u>\$( 103,211)</u>	<u>\$( 132,911)</u>	<u>\$( 29,700)</u>

**See independent auditors' report and notes to financial statements.**

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COMPLIANCE AND INTERNAL CONTROL SECTION

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of International American Education Federation, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2015, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 12, 2016.

**Internal Control Over Financial Reporting**

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

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

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

### **Purpose of this Report**

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

Pattillo, Brown & Hill, L.L.P.

Waco, Texas  
January 12, 2016



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

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

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

**Report on Compliance for Each Major Federal Program**

We have audited International American Education Federation, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of International American Education Federation, Inc.'s major federal programs for the year ended August 31, 2015. International American Education Federation, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of International American Education Federation, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about International American Education Federation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of International American Education Federation, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, International American Education Federation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

### **Report on Internal Control Over Compliance**

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

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas  
January 12, 2016

**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED AUGUST 31, 2015**

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed through the Texas Education Agency</u>			
School Breakfast Program	10.553	71401401	\$ 7,680
School Breakfast Program	10.553	71401501	47,796
National School Lunch Program	10.555	71301401	56,269
National School Lunch Program	10.555	71301501	<u>487,184</u>
Total Passed through the Texas Education Agency			<u>598,929</u>
<u>Passed through Texas Department of Agriculture:</u>			
Commodities - Noncash Assistance			<u>41,038</u>
Total Passed through Texas Department of Agriculture			<u>41,038</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>639,967</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed through the Texas Education Agency</u>			
IDEA Part - B, Formula	84.027	15660001057848600	<u>610,919</u>
Subtotal Idea, Part-B Cluster			<u>610,919</u>
Total Passed through the Texas Education Agency			<u>610,919</u>
<u>Passed through Region 10 Education Service Center</u>			
ESEA Title I, Part A	84.010A		623,554
Title II, Part A, Teacher & Principal Training	84.367A		85,306
Title III, LEP	84.365		<u>5,502</u>
Total Passed through Region 10 Education Service Center			<u>714,362</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>714,362</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ <u>1,965,248</u>

**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

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

**AUGUST 31, 2015**

**1. GENERAL**

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

**2. BASIS OF ACCOUNTING**

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

**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED AUGUST 31, 2015**

**Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? No

Type of auditors' report issued on compliance  
for major programs

Unmodified

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

None

Identification of major programs:

CFDA Number(s)

10.553, 10.555

84.010A

Name of Federal Program or Cluster:

Child Nutrition Cluster

Title I, Part A

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

\$300,000

Auditee qualified as low-risk auditee?

No

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

None

**Findings and Questioned Costs for  
Federal Awards**

None

**INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE YEAR ENDED AUGUST 31, 2015**

**Findings and Questioned Costs for Federal Awards**

<b><u>Federal Grantor:</u></b>	U.S. Department of Education U.S. Department of Agriculture
<b><u>Program:</u></b>	Child Nutrition Cluster, CFDA 10.553 and 10.555 IDEA Part B, CFDA 84.027
<b><u>Compliance Requirements:</u></b>	Activities Allowed or Unallowed Allowable Costs/Cost Principles Procurements and Supervision and Debarment

**Item 2014-001**

<b><u>Condition:</u></b>	We noted instances of the Organization not adhering to the purchasing policies that have been adopted and approved by the Organization. The Organization's purchasing policies require approved purchase orders for all nonrecurring expenditures (i.e. utilities) except payroll.
<b><u>Effect:</u></b>	Without approved purchase orders, there is a chance that a purchase could be made that violates the purchasing policies or an unauthorized purchase could be made.
<b><u>Cause:</u></b>	This is the first full operating year for the Organization. The controls and policies are new to the Organization and were not always communicated to Organization personnel in a timely manner. There were transactions that occurred as startup expenditures that did not include an approved purchase order. A lot of these transactions involved reimbursements for minor employee reimbursements. The Organization also allowed signed contracts that were approved by appropriate Organization personnel.

Recommendation:

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

Current Status:

This matter has been resolved.

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