

**INTERNATIONAL AMERICAN
EDUCATION FEDERATION, INC.**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2016**

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

CERTIFICATE OF BOARD

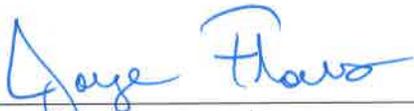
AUGUST 31, 2016

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, 2016, at a meeting of the governing body of the charter holder on the 25th day of January, 2017.



Signature of Board Secretary



Signature of Board President

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

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of International American Education Federation, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, 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, 2016, 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 19 through 30 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017, 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 25, 2017

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GENERAL PURPOSE FINANCIAL STATEMENTS

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2016

ASSETS

	<u>2016</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 19,336,385
Due from other governments	4,352,720
Accounts receivable, net	<u>1,152,240</u>
Total Current Assets	<u>24,841,345</u>
Capitalized bond issuance costs	<u>739,887</u>
PROPERTY AND EQUIPMENT	
Land	9,433,537
Building and improvements	83,103,863
Furniture and equipment	5,677,677
Vehicles	1,138,144
Less accumulated depreciation	<u>(5,214,041)</u>
Total Property and Equipment	<u>94,139,180</u>
Total Assets	<u>119,720,412</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	2,678,078
Due to other governments	129,201
Deferred revenue	2,380,189
Accrued wages payable	2,232,763
Payroll deductions and withholdings	519,178
Current portion of long-term debt	<u>575,488</u>
Total Current Liabilities	<u>8,514,897</u>

LONG-TERM LIABILITIES

Long-term debt	<u>111,991,066</u>
Total Long-Term Liabilities	<u>111,991,066</u>
Total Liabilities	<u>120,505,963</u>

NET ASSETS

Unrestricted	(834,149)
Temporarily restricted	<u>48,598</u>
Total Net Assets	<u>(785,551)</u>
Total Liabilities and Net Assets	<u>\$ 119,720,412</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, 2016

	Unrestricted	Temporarily Restricted	Totals 2016
REVENUE			
Local Revenue:			
Foundations, Other Non-Profit Organizations, Gifts, and Bequests	\$ 150,000	\$ 5,028,443	\$ 5,178,443
SSA-Local Revenues from Member Districts	984,949	772,485	1,757,434
Food Service Activity	-	401,922	401,922
Interest, Dividends, Gains, and Losses	19,222	-	19,222
Athletic Activities	2,722	-	2,722
Enterprising Services Revenue	7,830	-	7,830
Miscellaneous Revenue	29	-	29
Other Revenue from local sources	1,977,503	-	1,977,503
Total Local Revenue	3,142,255	6,202,850	9,345,105
State Program Revenue:			
Per Capita Apportionment	-	798,349	798,349
Foundation School Program Act Revenue	-	41,711,544	41,711,544
State Program Revenue Distributed by TEA	-	577,989	577,989
State Program Revenue Distributed by State of Texas Government Agency	-	5,750	5,750
Total State Program Revenue	-	43,093,632	43,093,632
Federal Program Revenue:			
National School Breakfast and Lunch Program	-	728,865	728,865
Federal Program Revenue Distributed by TEA	-	1,306,529	1,306,529
Federal Program Revenue Distributed Directly from the Federal Government	-	141,055	141,055
SHARS	-	321	321
Total Federal Program Revenue	-	2,176,770	2,176,770
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	51,488,003	(51,488,003)	-
Total Revenue	54,630,258	(14,751)	54,615,507
EXPENSES			
Program Services:			
Instruction	25,899,169	-	25,899,169
Instruction Resources and Media	174,503	-	174,503
Curriculum and Instructional Staff Development	820,418	-	820,418
Instructional Leadership	329,257	-	329,257
School Leadership	3,918,681	-	3,918,681
Guidance, Counseling, and Evaluating Services	1,142,293	-	1,142,293
Social Work Services	195	-	195
Health Services	547,544	-	547,544
Student Transportation	144,879	-	144,879
Food Services	1,213,148	-	1,213,148
Extracurricular Activities	1,630,872	-	1,630,872
General Administration	2,418,502	-	2,418,502
Facilities Maintenance and Operations	7,830,629	-	7,830,629
Security and Monitoring Services	483,192	-	483,192
Data Processing	858,371	-	858,371
Community Services	1,172,832	-	1,172,832
Debt Service	6,085,694	-	6,085,694
Total Expenses	54,670,179	-	54,670,179
CHANGE IN NET ASSETS	(39,921)	(14,751)	(54,672)
NET ASSETS, BEGINNING	(794,228)	63,349	(730,879)
NET ASSETS, END OF YEAR	\$(834,149)	\$ 48,598	\$(785,551)

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, 2016

	<u>2016</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$(54,672)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,887,320
(Increase) decrease in due from TEA	(2,283,000)
(Increase) decrease in accounts receivable	(1,140,091)
Increase (decrease) in accounts payable	1,697,448
Increase (decrease) in due to other governments	24,282
Increase (decrease) in deferred revenue	742,040
Increase (decrease) in wages payable	1,523,804
Increase (decrease) in payroll deductions and withholdings	<u>231,465</u>
Net Cash Provided (Used) by Operating Activities	<u>4,628,596</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of land, buildings, and equipment	(3,357,249)
Net Cash Provided (Used) by Investing Activities	<u>(3,357,249)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of long-term debt	3,841,710
Principal payments on debt	(73,195)
Net Cash Provided (Used) by Financing Activities	<u>3,768,515</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,039,862
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>14,296,523</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 19,336,385</u>

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

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, 2016, 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, 2016.

IV. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2016, the Organization had no material liability for accrued sick leave or vacation leave.

V. DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

Benefits Provided

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

Information with respect to the 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 2015-2016
Teacher Retirements System of Texas	n/a	Unknown	n/a	n/a	\$ 18,263	\$ 524,758
Total contributions made					\$ 18,263	\$ 524,758

Notes to the table:

1. Certified Zone Status (as defined by the Pension Protection Act) represents the level at which the plan is funded. Details of the funding status for the latest measurement date of December 31, 2015 are as follows:
 - i. Total plan assets - \$149,780,061,824.
 - ii. Accumulated benefit obligations - \$163,887,375,172.
 - iii. The System is 78.43% 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, 2015, the year-end of the System, contributions made to the system did not represent more than 5% of the total contributions received by the System.
4. Contribution Rates:

	2016	2015
Member	7.2%	6.7%
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 must contribute 0.50% of their salary and the Organization must contribute 0.55% of the salary of each active employee to TRS-Care (The TRS health plan for retired employees). The total amount contributed to TRS-Care for the year was \$253,965 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, 2016, full-time employees of the Organization were covered by a health insurance plan (the Plan). The Organization contributed \$341 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

VII. COMMITMENTS AND CONTINGENCIES

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

VIII. CAPITAL ASSETS

Capital assets at August 31, 2016 were as follows:

	Balance 09/01/15	Additions	Deletions	Balance 08/31/16
Land	\$ 8,343,537	\$ 1,090,000	\$ -	\$ 9,433,537
Building and improvements	82,641,786	462,077	-	83,103,863
Vehicles	45,722	1,092,422	-	1,138,144
Furniture and equipment (capital leases)	4,964,927	712,750	-	5,677,677
Accumulated depreciation	(1,352,234)	(3,861,807)	-	(5,214,041)
	<u>\$ 94,643,738</u>	<u>\$ (504,558)</u>	<u>\$ -</u>	<u>\$ 94,139,180</u>

IX. ECONOMIC DEPENDENCY

During the year ended August 31, 2016, International American Education Federation, Inc. earned revenue of \$43,093,632 from the Texas Education Agency (TEA). These amounts constitute approximately 78.9% of total revenues earned. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the Organization to continue to provide the current level of services to its students.

X. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the year ending August 31, 2016 consisted of the following:

	2016
National School Breakfast and Lunch Program	\$ 8,211
Road Scholars	37,766
Ed Rachel Foundation Grant	2,621
	<u>\$ 48,598</u>

XI. DEFERRED REVENUE

Deferred revenue at August 31, 2016 consisted of the following:

	2016
Grants	\$ 39,189
Student activities	28
Confucius Institute	35,337
Foreign student tuition/housing	1,087,824
	<u>\$ 1,162,378</u>

XII. LONG-TERM DEBT

Long-term debt at August 31, 2016 consisted of the following:

	2016
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.	15,481
\$45,686 capital lease, issued by C2M Tech for computer equipment. The lease bears interest at a rate of 8.25% and is due in monthly installments of \$1,437. The capital lease expires in December of 2018. The capital lease is secured by the equipment.	36,484
\$563,064 capital lease, issued by C2M Tech for computer equipment. The lease bears interest at a rate of 10.00% and is due in monthly installments of \$11,963. The capital lease expires in September of 2018. The capital lease is secured by the equipment.	479,663
\$2,196,924 technology loan, issued by C2M Tech for instructional materials. The lease bears interest at a rate of 9.50% and is due in monthly installments of \$46,139. The capital lease expires in August of 2021. The capital lease is secured by the instructional materials.	2,196,924
\$434,828 auto loan, issued by Daimler Truck Financial for four buses. The loan bears interest at a rate of 4.85% and is due in monthly installments of \$6,977. The loan expires in May of 2022. The capital lease is secured by the buses.	414,114
\$434,828 auto loan, issued by Daimler Truck Financial for four buses. The loan bears interest at a rate of 4.85% and is due in monthly installments of \$6,984. The loan expires in June of 2022. The capital lease is secured by the buses.	419,811
\$91,866 auto loan, issued by Interbank for two Suburbans. The loan bears interest at a rate of 5.832% and is due in monthly installments of \$1,769. The loan expires in January of 2022. The loan is secured by the Suburbans.	82,473
\$23,792 auto loan, issued by Toyota Financial Services for a 2016 Toyota Scion. The loan bears interest at a rate of 0% and is due in monthly installments of \$397. The loan expires in March of 2021. The loan is secured by the Scion.	21,809
\$22,108 auto loan, issued by Ford Credit for a 2015 Ford Transit Cargo Van. The loan bears interest at a rate of 5.49% and is due in monthly installments of \$514. The loan expires in June of 2020. The loan is secured by the van.	21,257
\$28,614 auto loan, issued by Ford Credit for a 2015 Ford F-150 Truck. The loan bears interest at a rate of 5.49% and is due in monthly installments of \$665. The loan expires in June of 2020. The loan is secured by the truck.	27,517
	114,755,533
Total Debt	114,755,533
Less Unamortized Discount	(2,188,979)
Less Current Portion of Long-term Debt	(575,488)
Total Long-term Debt	\$ 111,991,066

Future maturities of long-term debt at August 31, 2016 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 575,488	\$ 6,370,002	\$ 6,945,490
2018	2,410,597	6,311,741	8,722,338
2019	2,551,808	6,134,408	8,686,216
2020	2,720,502	5,995,735	8,716,237
2021	2,866,278	5,812,151	8,678,429
2022-2026	12,910,860	27,278,607	40,189,467
2027-2031	15,740,000	23,919,606	39,659,606
2031-2036	20,430,000	19,231,213	39,661,213
2037-2041	26,900,000	12,762,700	39,662,700
2042-2046	<u>27,650,000</u>	<u>4,085,375</u>	<u>31,735,375</u>
Total	<u>\$ 114,755,533</u>	<u>\$ 117,901,538</u>	<u>\$ 232,657,071</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>	
2017	\$ 10,766,289
2018	10,853,560
2019	11,180,534
2020	11,375,210
2021	11,502,229
Thereafter	<u>298,649,727</u>
Total	<u>\$ 354,327,549</u>

Operating lease expenses were approximately \$989,391 for the year ended August 31, 2016.

XIII. NEW DEBT

The Organization entered into a capital lease with C2M Tech for computer equipment and technology improvements for \$45,686. The lease is dated December 4, 2015 and requires monthly installments of \$1,437 and carries an interest rate of 8.25%. The lease expires on December 1, 2018. The lease is secured by the equipment.

The Organization entered into a capital lease with C2M Tech for computer equipment and technology improvements for \$563,064. 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.

The Organization entered into a loan agreement with C2M Tech for instructional materials for \$2,196,924. The loan is dated August 30, 2016 and requires monthly installments of \$46,139 and carries an interest rate of 9.50%. The loan expires on August 30, 2021. The loan is secured by the instructional materials.

The Organization entered into an auto loan with Daimler Truck Financial for four buses for \$434,828. The lease is dated May 11, 2016 and requires monthly installments of \$6,977 and carries an interest rate of 4.85%. The lease expires on May 15, 2022. The lease is secured by the buses.

The Organization entered into an auto loan with Daimler Truck Financial for four buses for \$434,828. The loan is dated May 20, 2016 and requires monthly installments of \$6,984 and carries an interest rate of 4.85%. The loan expires on June 1, 2022. The loan is secured by the buses.

The Organization entered into an auto loan with Interbank for two Suburbans for \$91,866. The loan is dated January 4, 2016 and requires monthly installments of \$1,769 and carries an interest rate of 5.832%. The loan expires on January 4, 2022. The loan is secured by the Suburbans.

The Organization entered into an auto loan with Toyota Financial Services for a 2016 Toyota Scion for \$23,792. The loan is dated March 14, 2016 and requires monthly installments of \$397 and carries an interest rate of 0%. The loan expires on March 28, 2021. The loan is secured by the Scion.

The Organization entered into an auto loan with Ford Credit for a 2015 Ford Transit Cargo Van for \$22,108. The loan is dated July 28, 2016 and requires monthly installments of \$514 and carries an interest rate of 5.49%. The loan expires on June 28, 2020. The loan is secured by the van.

The Organization entered into an auto loan with Ford Credit for a 2015 Ford F-150 for \$28,614. The loan is dated July 27, 2016 and requires monthly installments of \$665 and carries an interest rate of 5.49%. The loan expires on June 27, 2020. The loan is secured by the F-150.

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 1, 2016 and requires monthly installments of \$27,176 and carries an interest rate of 9%. The lease expires on August 28, 2022. The lease is secured by the equipment.

The Organization entered into a capital lease with C2M Tech for computer equipment and technology improvements. The lease is dated September 1, 2016 and requires monthly installments of \$30,602 and carries an interest rate of 9.5%. The lease expires on September 1, 2021. 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, 2016

ASSETS

	<u>2016</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 18,083,165
Due from TEA	4,352,720
Accounts receivable, net	<u>207,106</u>
Total Current Assets	<u>22,642,991</u>
Capitalized bond issuance costs	<u>739,887</u>
PROPERTY AND EQUIPMENT	
Land	9,433,537
Building and improvements	83,103,863
Furniture and equipment	5,677,677
Vehicles	1,138,144
Less accumulated depreciation	<u>(5,214,041)</u>
Total Property and Equipment	<u>94,139,180</u>
Total Assets	<u>117,522,058</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	1,572,746
Due to other governments	129,201
Deferred revenue	1,162,378
Accrued wages payable	2,232,763
Payroll deductions and withholdings	518,721
Current portion of long-term debt	<u>575,488</u>
Total Current Liabilities	<u>6,191,297</u>

LONG-TERM LIABILITIES

Long-term debt	<u>111,991,066</u>
Total Long-Term Liabilities	<u>111,991,066</u>
Total Liabilities	<u>118,182,363</u>

NET ASSETS

Unrestricted	(708,903)
Temporarily restricted	<u>48,598</u>
Total Net Assets	<u>(660,305)</u>
Total Liabilities and Net Assets	<u>\$ 117,522,058</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, 2016

ASSETS

	<u>2016</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,253,220
Accounts receivable, net	<u>945,134</u>
Total Current Assets	<u>2,198,354</u>
Total Assets	<u>2,198,354</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	1,105,332
Deferred revenue	1,217,811
Payroll deductions and withholdings	<u>457</u>
Total Current Liabilities	<u>2,323,600</u>

Total Liabilities	<u>2,323,600</u>
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NET ASSETS

Unrestricted	<u>(125,246)</u>
Total Net Assets	<u>(125,246)</u>
Total Liabilities and Net Assets	<u>\$ 2,198,354</u>

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INTERNATIONAL LEADERSHIP OF TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

	Unrestricted	Temporarily Restricted	Totals 2016
REVENUE			
Local Revenue:			
Foundations, Other Non-Profit Organizations, Gifts, and Bequests	\$ -	\$ 5,028,443	\$ 5,028,443
SSA-Local Revenues from Member Districts	-	772,485	772,485
Food Service Activity	-	401,922	401,922
Interest, Dividends, Gains, and Losses	19,222	-	19,222
Athletic Activities	2,722	-	2,722
Enterprising Services Revenue	7,830	-	7,830
Other Revenue from local sources	1,912,449	-	1,912,449
Miscellaneous Revenue	29	-	29
Total Local Revenue	1,942,252	6,202,850	8,145,102
State Program Revenue:			
Per Capita Apportionment	-	798,349	798,349
Foundation School Program Act Revenue	-	41,711,544	41,711,544
State Program Revenue Distributed by TEA	-	577,989	577,989
State Program Revenue Distributed by State of Texas Government Agency	-	5,750	5,750
Total State Program Revenue	-	43,093,632	43,093,632
Federal Program Revenue:			
National School Breakfast and Lunch Program	-	728,865	728,865
Federal Program Revenue Distributed by TEA	-	1,306,529	1,306,529
Federal Program Revenue Distributed Directly from the Federal Government	-	141,055	141,055
SHARS	-	321	321
Total Federal Program Revenue	-	2,176,770	2,176,770
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	51,488,003	(51,488,003)	-
Total Revenue	53,430,255	(14,751)	53,415,504
EXPENSES			
Program Services:			
Instruction	25,685,557	-	25,685,557
Instruction Resources and Media	174,503	-	174,503
Curriculum and Instructional Staff Development	820,418	-	820,418
Instructional Leadership	329,257	-	329,257
School Leadership	3,918,681	-	3,918,681
Guidance, Counseling, and Evaluating Services	1,142,293	-	1,142,293
Social Work Services	195	-	195
Health Services	547,544	-	547,544
Student Transportation	144,879	-	144,879
Food Services	1,134,744	-	1,134,744
Extracurricular Activities	1,469,816	-	1,469,816
General Administration	1,804,883	-	1,804,883
Facilities Maintenance and Operations	7,791,464	-	7,791,464
Security and Monitoring Services	483,192	-	483,192
Data Processing	858,371	-	858,371
Community Services	1,086,350	-	1,086,350
Debt Service	6,085,694	-	6,085,694
Total Expenses	53,477,841	-	53,477,841
CHANGE IN NET ASSETS	(47,586)	(14,751)	(62,337)
NET ASSETS, BEGINNING	(661,317)	63,349	(597,968)
NET ASSETS, END OF YEAR	\$(708,903)	\$ 48,598	\$(660,305)

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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2016</u>
REVENUE			
Local Revenue:			
Foundations, Other Non-Profit Organizations, Gifts, and Bequests	\$ 150,000	\$ -	\$ 150,000
SSA-Local Revenues from Member Districts	984,949	-	984,949
Other Revenue from local sources	<u>65,054</u>	<u>-</u>	<u>65,054</u>
Total Local Revenue	<u>1,200,003</u>	<u>-</u>	<u>1,200,003</u>
 Total Revenue	 <u>1,200,003</u>	 <u>-</u>	 <u>1,200,003</u>
EXPENSES			
Program Services:			
Instruction	213,612	-	213,612
Food Services	78,404	-	78,404
Extracurricular Activities	161,056	-	161,056
General Administration	613,619	-	613,619
Facilities Maintenance and Operations	39,165	-	39,165
Community Services	<u>86,482</u>	<u>-</u>	<u>86,482</u>
 Total Expenses	 <u>1,192,338</u>	 <u>-</u>	 <u>1,192,338</u>
CHANGE IN NET ASSETS	<u>7,665</u>	<u>-</u>	<u>7,665</u>
NET ASSETS, BEGINNING	<u>(132,911)</u>	<u>-</u>	<u>(132,911)</u>
NET ASSETS, END OF YEAR	<u>\$(125,246)</u>	<u>\$ -</u>	<u>\$(125,246)</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, 2016

	<u>2016</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$(62,337)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,887,320
(Increase) decrease in due from TEA	(2,283,000)
(Increase) decrease in accounts receivable	(194,957)
Increase (decrease) in accounts payable	640,407
Increase (decrease) in due to other governments	24,282
Increase (decrease) in deferred revenue	217,394
Increase (decrease) in wages payable	1,523,804
Increase (decrease) in payroll deductions and withholdings	231,486
Net Cash Provided (Used) by Operating Activities	<u>3,984,399</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of land, buildings, and equipment	(3,357,249)
Net Cash Provided (Used) by Investing Activities	<u>(3,357,249)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of long-term debt	3,841,710
Principal payments on debt	(73,195)
Net Cash Provided (Used) by Financing Activities	<u>3,768,515</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,395,665
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>13,687,500</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 18,083,165</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, 2016

	<u>2016</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$ 7,665
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	(945,134)
Increase (decrease) in accounts payable	1,057,041
Increase (decrease) in deferred revenue	524,646
Increase (decrease) in payroll deductions and withholdings	(21)
Net Cash Provided (Used) by Operating Activities	<u>644,197</u>
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>609,023</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>1,253,220</u>

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INTERNATIONAL LEADERSHIP OF TEXAS

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2016

EXPENSES	<u>2016</u>
6100 Payroll Costs	\$ 30,173,936
6200 Professional & Contract Services	7,703,030
6300 Supplies & Materials	4,328,787
6400 Other Operating Costs	5,186,394
6500 Debt Service	<u>6,085,694</u>
 Total Expenses	 <u>\$ 53,477,841</u>

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2016

EXPENSES	<u>2016</u>
6100 Payroll Costs	\$ 403,252
6200 Professional & Contract Services	300,837
6300 Supplies & Materials	146,822
6400 Other Operating Costs	<u>341,427</u>
 Total Expenses	 \$ <u>1,192,338</u>

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INTERNATIONAL LEADERSHIP OF TEXAS

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2016

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ 519,788	\$ 8,913,749	\$ -
1520 Buildings and Improvements	4,579,023	78,524,840	-
1531 Vehicles	62,712	1,075,432	-
1559 Furniture and Equipment (Capital Leases)	312,840	5,364,837	-
1570 Accumulated Depreciation	(287,294)	(4,926,747)	-
Total Property and Equipment	<u>\$ 5,187,069</u>	<u>\$ 88,952,111</u>	<u>\$ -</u>

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INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2016

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

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INTERNATIONAL LEADERSHIP OF TEXAS
BUDGET COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

	Budget Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUE				
Local Support:				
5722 SSA-Local Revenues from Member				
Districts	\$ 664,991	\$ 779,486	\$ 772,485	\$(7,001)
5740 Other Local Revenue	321,757	8,374,931	6,960,143	(1,414,788)
5750 Food Service, Co-curricular, Enterprising Services or Activities	<u>330,000</u>	<u>320,871</u>	<u>412,474</u>	<u>91,603</u>
Total Local Revenue	<u>1,316,748</u>	<u>9,475,288</u>	<u>8,145,102</u>	<u>(1,330,186)</u>
State Program Revenue:				
5810 Foundation School Program	38,983,297	39,513,292	41,711,544	2,198,252
5811 Per Capita Apportionment	1,259,645	798,349	798,349	-
5820 State Program Revenue Distributed by TEA	5,500	623,592	577,989	(45,603)
5839 State Revenues from State of Texas Government Agency	<u>600</u>	<u>5,750</u>	<u>5,750</u>	<u>-</u>
Total State Program Revenue	<u>40,249,042</u>	<u>40,940,983</u>	<u>43,093,632</u>	<u>2,152,649</u>
Federal Program Revenue:				
5920 Federal Program Revenue Distributed by TEA	<u>631,483</u>	<u>2,395,551</u>	<u>2,176,770</u>	<u>(218,781)</u>
Total Federal Program Revenue	<u>631,483</u>	<u>2,395,551</u>	<u>2,176,770</u>	<u>(218,781)</u>
Total Revenue	<u>42,197,273</u>	<u>52,811,822</u>	<u>53,415,504</u>	<u>603,682</u>
EXPENSES				
11 Instructional	19,917,670	25,574,516	25,685,557	(111,041)
12 Instructional Resources & Media Services	91,695	174,831	174,503	328
13 Curriculum & Instructional Staff Development	386,853	997,047	820,418	176,629
21 Instructional Leadership	204,068	323,788	329,257	(5,469)
23 School Leadership	4,241,422	3,935,757	3,918,681	17,076
31 Guidance, Counseling, & Evaluation Services	748,375	1,222,979	1,142,293	80,686
32 Social Work Services	-	923	195	728
33 Health Services	500,957	545,473	547,544	(2,071)
34 Transportation	40,000	283,785	144,879	138,906
35 Food Service	1,313,213	1,169,630	1,134,744	34,886
36 Extracurricular	512,813	2,018,025	1,469,816	548,209
41 General Administration	1,059,873	1,898,461	1,804,883	93,578
51 Facilities Maintenance and Operations	6,812,910	9,128,678	7,791,464	1,337,214
52 Security & Monitoring Services	329,707	498,388	483,192	15,196
53 Data Processing Services	469,784	1,247,321	858,371	388,950
61 Community Services	411,627	1,486,602	1,086,350	400,252
71 Debt Service	<u>-</u>	<u>6,242,179</u>	<u>6,085,694</u>	<u>156,485</u>
Total Expenses	<u>37,040,967</u>	<u>56,748,383</u>	<u>53,477,841</u>	<u>3,270,542</u>
CHANGE IN NET ASSETS	<u>5,156,306</u>	<u>(3,936,561)</u>	<u>(62,337)</u>	<u>3,874,224</u>
NET ASSETS, BEGINNING	<u>(597,968)</u>	<u>(597,968)</u>	<u>(597,968)</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ 4,558,338</u>	<u>\$(4,534,529)</u>	<u>\$(660,305)</u>	<u>\$ 3,874,224</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, 2016

	Budget Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUE				
Local Support:				
5740 Other Local Revenue	\$ 188,000	\$ 1,267,083	\$ 1,200,003	\$ (67,080)
Total Revenue	188,000	1,267,083	1,200,003	(67,080)
EXPENSES				
11 Instructional	175,000	215,000	213,612	1,388
35 Food Service	150,000	89,963	78,404	11,559
36 Extracurricular	150,000	192,000	161,056	30,944
41 General Administration	335,901	548,901	613,619	(64,718)
51 Facilities Maintenance and Operations	-	40,500	39,165	1,335
61 Community Services	-	181,062	86,482	94,580
Total Expenses	810,901	1,267,426	1,192,338	75,088
CHANGE IN NET ASSETS	(622,901)	(343)	7,665	8,008
NET ASSETS, BEGINNING	(132,911)	(132,911)	(132,911)	-
NET ASSETS, END OF YEAR	<u>\$(755,812)</u>	<u>\$(133,254)</u>	<u>\$(125,246)</u>	<u>\$ 8,008</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, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2017.

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 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 25, 2017



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

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

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

Report on Compliance for Each Major Federal Program

We have audited International American Education Federation, Inc.'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of International American Education Federation, Inc.'s major federal programs for the year ended August 31, 2016. International American Education Federation, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of International American Education Federation, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about International American Education Federation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, International American Education Federation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

Report on Internal Control Over Compliance

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
January 25, 2017

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2016

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed through the Texas Education Agency</u>			
School Breakfast Program	10.553	71401501	\$ 9,586
School Breakfast Program	10.553	71401601	44,642
National School Lunch Program	10.555	71301501	63,323
National School Lunch Program	10.555	71301601	<u>532,157</u>
Total Passed through the Texas Education Agency			<u>649,708</u>
<u>Passed through Texas Department of Agriculture:</u>			
Commodities - Noncash Assistance	10.555	3001201	<u>79,157</u>
Total Passed through Texas Department of Agriculture			<u>79,157</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>728,865</u>
U.S. DEPARTMENT OF EDUCATION			
<u>Passed through the Texas Education Agency</u>			
IDEA Part - B, Formula	84.027	15660001057848600	<u>567,848</u>
Subtotal Idea, Part-B Cluster			<u>567,848</u>
LEP Summer School	84.369A	69551502	<u>4,452</u>
Subtotal LEP Summer School			<u>4,452</u>
Total Passed through the Texas Education Agency			<u>572,300</u>
<u>Passed through Region 10 Education Service Center</u>			
ESEA Title I, Part A	84.010		642,356
Title II, Part A, Teacher & Principal Training	84.367		141,055
Title III, LEP	84.365		<u>91,873</u>
Total Passed through Region 10 Education Service Center			<u>875,284</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>875,284</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>2,176,449</u></u>

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

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

AUGUST 31, 2016

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

3. INDIRECT COST RATE

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

4. FEDERAL REVENUE RECONCILIATION

The following is the reconciliation of federal revenues and the Schedule of Expenditures of Federal Awards for the year ended August 31, 2016:

Federal revenues per the Statement of Activities	\$	2,176,770
Less:		
School health and related services revenue		<u>321</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	\$	<u><u>2,176,449</u></u>

INTERNATIONAL AMERICAN EDUCATION FEDERATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2016

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? None reported

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance
for major programs

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with Section
200.516(a) of Uniform Guidance?

None

Identification of major programs:

CFDA Number(s)

84.010A

Name of Federal Program or Cluster:

Title I, Part A

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

\$750,000

Auditee qualified as low-risk auditee?

Yes

**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, 2016

Findings and Questioned Costs for Federal Awards

None noted.