

**IDEA Public Schools, Inc.**

Financial and Compliance Report

June 30, 2013

**IDEA Public Schools, Inc.**  
Financial and Compliance Report  
Ten Months Ended June 30, 2013

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**IDEA Public Schools, Inc.**  
Financial and Compliance Report  
Ten Months Ended June 30, 2013

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# **IDEA Public Schools, Inc.**

## **Board of Directors**

Mike Rhodes, Chairman

Bill Martin, Vice Chairman

Gabriel Puente, Secretary

Bill Carrera, CPA, Treasurer

Thomas E. Torkelson, Member

David Guerra, Member

Ruben M. Lopez, MD, Member

Eric Ziehe, Member

Sergio Sanchez, Member

Reba Cardenas-McNair, Member

Victoria Rico, San Antonio Regional Board Chair

Tina Fernandez, Austin Regional Board Chair

## **President and Chief Executive Officer**


Thomas E. Torkelson

## **Chief Financial Officer**

Wyatt J. Truscheit

**IDEA Public Schools, Inc.**  
Federal Employer Identification Number: 74-2948339  
Certificate of Board

We, the undersigned, certify that the attached financial and compliance report of the above-named charter holder was reviewed and (check one)  approved  disapproved for the ten months ended June 30, 2013, at a meeting of the governing body of the charter holder on the 29<sup>th</sup> day of August, 2013.

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

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

If the governing body of the charter holder disapproved the independent auditors' report, the reason(s) for disapproving it is (are): (attach list as necessary)

## Independent Auditor's Report

To the Board of Directors  
IDEA Public Schools, Inc.  
Weslaco, Texas

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

We have audited the accompanying financial statements of IDEA Public Schools, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the ten months 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.

### ***Auditor's 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 auditor's 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 School'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 School'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.

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### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2013, and the changes in its net assets and its cash flows for the ten months 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 Other Supplemental Information, as listed in the table of contents, and the 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*, are presented for purposes of additional analysis and are 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 August 23, 2013 on our consideration of the School'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 the School's internal control over financial reporting and compliance.

*Padgett, Stratemann & Co., L.L.P.*

Certified Public Accountants  
August 23, 2013

## Financial Statements



# IDEA Public Schools, Inc.

## Exhibit A-1 Statement of Financial Position June 30, 2013

### Assets

#### Current Assets

Cash and cash equivalents	\$ 30,212,442
Cash and cash equivalents – restricted	6,303,936
Due from government agencies	16,902,914
Other receivables	1,307,203
Inventories	40,850
Prepaid expenses	452,483
Other current assets	<u>751,162</u>
Total current assets	<u>55,970,990</u>

#### Property and Equipment

Land and improvements	14,719,624
Buildings and improvements	120,312,053
Leasehold improvements	2,645,291
Vehicles	3,917,893
Furniture and equipment	1,755,162
Construction in progress	<u>50,252,413</u>
Total property and equipment	193,602,436
Less accumulated depreciation and amortization	<u>18,328,219</u>
Net property and equipment	<u>175,274,217</u>

#### Other Assets

Cash and cash equivalents – noncurrent – restricted	37,211,642
Bond and other debt issuance costs – net	5,083,039
Other assets	<u>180,777</u>
Total other assets	<u>42,475,458</u>
Total assets	<u>\$ 273,720,665</u>

*Notes to financial statements form an integral part of this statement.*

**IDEA Public Schools, Inc.**

Exhibit A-1  
Statement of Financial Position  
June 30, 2013  
(Continued)

**Liabilities and Net Assets**

**Current Liabilities**

Accounts payable	\$ 7,360,071
Accrued wages payable	5,895,532
Accrued payroll expenses	166,853
Accrued interest payable	4,401,002
Accrued expenses	4,872,530
Deferred revenues	3,325,470
Other liabilities	296,611
Bonds payable – current portion	1,955,000
Capital leases payable – current portion	<u>109,426</u>
Total current liabilities	<u>28,382,495</u>

**Long-Term Liabilities**

Bonds payable	189,230,000
Premium on issuance of bonds – net of amortization	1,344,258
Notes payable	6,355,010
Capital leases payable	<u>359,937</u>
Total long-term liabilities	<u>197,289,205</u>
Total liabilities	<u>225,671,700</u>

**Net Assets**

Unrestricted	1,600,419
Temporarily restricted	<u>46,448,546</u>
Total net assets	<u>48,048,965</u>
Total liabilities and net assets	<u>\$ 273,720,665</u>

*Notes to financial statements form an integral part of this statement.*

**IDEA Public Schools, Inc.**

Exhibit A-2

**Statement of Activities and Changes in Net Assets**  
Ten Months Ended June 30, 2013

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues and Other Support</b>			
Local support:			
Contributions	\$ 396,840	\$ 32,970	\$ 429,810
Grants	-	3,127,261	3,127,261
Food service	9,697	630,191	639,888
Contracted service	4,023,748	-	4,023,748
Other revenues	7,387	3,227,786	3,235,173
	<u>4,437,672</u>	<u>7,018,208</u>	<u>11,455,880</u>
State program revenues:			
Foundation School Program	-	93,904,129	93,904,129
Other state aid	-	786,218	786,218
	<u>-</u>	<u>94,690,347</u>	<u>94,690,347</u>
Federal program revenues:			
ESEA Title I – Part A	-	3,784,940	3,784,940
ESEA Title II – Part A Teacher/Principal Training	-	478,542	478,542
ESEA Title III – Part A Language Acquisition	-	148,701	148,701
ESEA Title III – Part A Immigrant	-	6,208	6,208
ESEA Title V – Part B Charter Schools	-	582,404	582,404
ESEA Title I – Part G Advanced Placement Program	-	6,818	6,818
IDEA B Formula – Special Education	-	985,796	985,796
ARRA ESEA Race to the Top – District Grants	-	1,635,393	1,635,393
ARRA ESEA Title XIV – Investing in Innovation	-	1,166,727	1,166,727
HEA Title IV – Part A GEAR-UP – Connect2College	-	1,230,034	1,230,034
SSA Title XIX – School Health and Related Services	14,393	-	14,393
Child Nutrition	-	7,533,149	7,533,149
	<u>14,393</u>	<u>17,558,712</u>	<u>17,573,105</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	103,669,774	(103,669,774)	-
	<u>108,121,839</u>	<u>15,597,493</u>	<u>123,719,332</u>

*Notes to financial statements form an integral part of this statement.*

**IDEA Public Schools, Inc.**

Exhibit A-2  
**Statement of Activities and Changes in Net Assets**  
 Ten Months Ended June 30, 2013  
 (Continued)

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Expenses</b>			
Program services:			
Instructional and instructional related services	\$ 47,124,770	\$ -	\$ 47,124,770
Instructional and school leadership	15,296,200	-	15,296,200
Total program services	62,420,970	-	62,420,970
Support services:			
Administrative support services	6,503,943	-	6,503,943
Ancillary services	52,954	-	52,954
Support services – nonstudent based	13,382,778	-	13,382,778
Support services – student (pupil)	17,768,837	-	17,768,837
Debt service	6,823,654	-	6,823,654
Fundraising	605,826	-	605,826
Total support services	45,137,992	-	45,137,992
Total expenses	107,558,962	-	107,558,962
Gain on sale of asset	-	2,309	2,309
Change in net assets	562,877	15,599,802	16,162,679
Net assets at beginning of period	1,037,542	30,848,744	31,886,286
Net assets at end of period	\$ 1,600,419	\$ 46,448,546	\$ 48,048,965

*Notes to financial statements form an integral part of this statement.*

# IDEA Public Schools, Inc.

## Exhibit A-3 Statement of Cash Flows Ten Months Ended June 30, 2013

### Cash Flows From Operating Activities

Change in net assets	\$ 16,162,679
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	4,788,212
Gain on disposal of personal property	(2,309)
Changes in current assets and liabilities:	
Due from government agencies	(10,081,918)
Other receivables	112,117
Inventories	682,560
Prepaid expenses	536,092
Other current assets	(569,970)
Accounts payable	911,357
Accrued wages payable	3,051,838
Accrued payroll expenses	(494,044)
Accrued interest payable	3,737,665
Accrued expenses	2,053,329
Deferred revenues	411,188
Other liabilities	<u>224,867</u>
Net cash provided by operating activities	<u>21,523,663</u>

### Cash Flows Used In Investing Activities

Proceeds from redemption of certificate of deposit	201,911
Construction and purchase of property and equipment	(50,551,699)
Proceeds from disposal of property and equipment	6,750
Investment in notes receivable from graduates	(75,701)
Repayment of notes receivable from graduates	<u>2,199</u>
Net cash used in investing activities	<u>(50,416,540)</u>

### Cash Flows From Financing Activities

Proceeds from borrowings of long-term debt	66,531,964
Principal payments on long-term debt	<u>(4,578,431)</u>
Net cash provided by financing activities	<u>61,953,533</u>
Net increase in cash and cash equivalents	33,060,656

Cash and cash equivalents at beginning of period	<u>40,667,364</u>
Cash and cash equivalents at end of period	<u>\$ 73,728,020</u>
Cash and cash equivalents	\$ 30,212,442
Cash and cash equivalents – restricted	6,303,936
Cash and cash equivalents – noncurrent – restricted	<u>37,211,642</u>
Total cash and cash equivalents	<u>\$ 73,728,020</u>

### Supplemental Disclosure of Cash Flow Information

Cash paid for interest	<u>\$ 4,918,824</u>
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*Notes to financial statements form an integral part of this statement.*

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### **Note 1 – Organization and Significant Accounting Policies**

#### ***Organization***

IDEA Public Schools, Inc. (the “School”) is a not-for-profit Texas corporation formed in June 2000. The School operates and does business as Individuals Dedicated to Excellence and Achievement (“IDEA”) Public Schools. The School is a state authorized, open enrollment charter school. The School’s only noncharter activity is the operation of an in-district charter school in the Austin Independent School District, which ended after the 2012-2013 school year. The Contract for Charter granted by the State Board of Education of the state of Texas pursuant to Chapter 12 of the Texas Education Code is effective until July 2015. The School provides educational services to students in grades K through 12.

#### ***Basis of Presentation***

House Bill 98 enacted by the 76<sup>th</sup> Legislature of the State of Texas, allowed charter schools to change their fiscal year-end from August 31<sup>st</sup> to June 30<sup>th</sup> beginning with the 2001-2002 fiscal year. The School elected to take advantage of this opportunity and chose to change its fiscal year beginning with the 2012-2013 fiscal period. As such, the financial statements are presented for a ten-month period ending June 30, 2013.

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The more significant of the School’s accounting policies are described below.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with GAAP.

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

#### ***Unrestricted***

Net assets that are not subject to donor imposed stipulations.

#### ***Temporarily Restricted***

Temporarily restricted net assets are those resources subject to donor-imposed restrictions that will be satisfied by the actions of the School or the passage of time. As of June 30, 2013, temporarily restricted net assets represent the net assets of the food service fund, which must be used for future food service activities, state funds that may be used in the following fiscal year, and any unspent state foundation monies.

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### **Note 1 – Organization and Significant Accounting Policies (continued)**

#### *Permanently Restricted*

Permanently restricted net assets are those resources subject to donor-imposed restriction that will be maintained permanently by the School. The donors of these resources require that the principal be invested in perpetuity and permit the income earned, including unrealized appreciation, to be used, all or in part, for unrestricted or temporarily restricted purposes. As of June 30, 2013, the School had no permanently restricted net assets.

#### *Cash and Cash Equivalents*

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

#### *Restricted Cash*

Restricted cash is limited as to use under the terms of the bond indenture. The current portion of restricted cash represents amounts restricted for construction activity.

#### *Due From Government Agencies*

The School considers all government grants and contracts as exchange transactions rather than contributions. The School recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as deferred revenues. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the grant or contract.

#### *Other Receivables*

The School's other receivables primarily represents E-rate and other receivables. The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The School considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

#### *Investments*

Investments are stated at fair value based upon quoted market prices, when available, or estimates of fair value in the statements of financial position. Unrealized gains and losses are included in the statements of activities and net assets.

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### Note 1 – Organization and Significant Accounting Policies (continued)

#### *Inventories*

Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value).

#### *Revenue Recognition*

Capitation received, including base capitation, entitlements, and special services, is recognized in the period services are provided. Revenues from the state of Texas are earned based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

#### *Depreciation and Amortization*

Property and equipment are stated at cost. Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Depreciation and amortization are calculated on the straight-line method based on the following estimated useful lives of the respective assets. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

<u>Asset Classification</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	10-30 years
Leasehold improvements	5-15 years
Vehicles	5 years
Furniture and equipment	3-10 years

#### *Impairment of Long-Lived Assets*

The School reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The School did not recognize an impairment loss during the ten months ended June 30, 2013.



# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### **Note 1 – Organization and Significant Accounting Policies (continued)**

#### ***Functional Allocation of Expenses***

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

#### ***Contingencies***

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the School, but which will only be resolved when one or more future events occur or fail to occur. The School's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the School or unasserted claims that may result in such proceedings, the School's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the School's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

#### ***Donated Services and Assets***

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills and which would typically need to be purchased if not provided by donation are recorded at the estimated fair market value in the period received.

Contributions of donated noncash assets are recorded at the estimated fair market value in the period received.

#### ***Federal Income Taxes***

The School is a nonprofit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business income. No such provision was been made in the accompanying financial statements. The School generally is no longer subject to income tax examinations by federal authorities for the years prior to August 31, 2009.

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### **Note 1 – Organization and Significant Accounting Policies (continued)**

#### ***Use of Estimates***

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

#### ***Advertising Costs***

The School expenses advertising costs when they are incurred. Advertising costs for the ten months ended June 30, 2013 totaled \$687,316.

#### ***Subsequent Events***

The School has evaluated subsequent events that occurred after June 30, 2013 through the date of this report on August 23, 2013. Any material subsequent events that occurred during this time have been properly recognized or disclosed in the financial statements.

### **Note 2 – Fair Value Measurements and Disclosures**

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification (“ASC”) apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At June 30, 2013, the School had no investments.

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### Note 2 – Fair Value Measurements and Disclosures (continued)

The fair value of the School's cash and cash equivalents, due from government agencies, payables, prepaid expenses, and other receivables approximates the carrying amounts of such instruments due to their short-term maturity. The fair value of the debt approximates the carrying amount because the rate and terms currently available to the School approximate the rate and terms on the existing debt.

### Note 3 – Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2013 consisted of the following:

Petty cash	\$	100
Checking accounts		30,201,115
Money market accounts		<u>43,526,805</u>
	\$	<u><u>73,728,020</u></u>

Cash and cash equivalents were temporarily restricted as follows:

Construction	\$	23,725,931
Debt service requirements for bonds		<u>19,789,647</u>
	\$	<u><u>43,515,578</u></u>

### Note 4 – Concentration of Credit Risk

The School maintains its cash deposits at Wells Fargo, Public Funds Administration and is insured up to \$250,000 by the Federal Deposit Insurance Corporation. Investment securities held by Wells Fargo that had a carrying value at June 30, 2013 of \$33,488,285 were pledged as collateral to secure public funds on deposit.

The School maintains proceeds received from the sale of bonds at Regions Bank, Corporate Trust Services in fiduciary accounts. The Office of the Comptroller of the Currency, Regulation 9, requires that banks collateralize uninvested cash in fiduciary accounts. At June 30, 2013, assets held by Regions Bank were pledged as collateral as a whole for all Regions Bank fiduciary accounts to secure fiduciary funds held in trust.

The School has not experienced any losses on these accounts and management believes it is not exposed to any significant credit risk on the excess amounts.

## IDEA Public Schools, Inc.

### Notes to Financial Statements

June 30, 2013

#### Note 5 – Due From Government Agencies

Amounts due from government agencies at June 30, 2013 consist of the following:

Texas Department of Education, Texas Education Agency (“TEA”)	\$ 15,070,265
United States Department of Education	1,111,819
United States Department of Education passed through TEA	640,064
United States Department of Agriculture passed through TEA	<u>80,766</u>
	<u>\$ 16,902,914</u>

#### Note 6 – Property and Equipment

Property and equipment at June 30, 2013 consist of the following:

	<b>Balance at August 31, 2012</b>	<b>Additions</b>	<b>Deductions and Transfers</b>	<b>Balance at June 30, 2013</b>
Land and improvements	\$ 12,851,068	\$ 1,227,382	\$ 641,174	\$ 14,719,624
Buildings and improvements	93,942,602	128,497	26,240,954	120,312,053
Leasehold improvements	2,632,602	12,689	-	2,645,291
Vehicles	3,473,144	252,157	(7,408)	3,717,893
Furniture and equipment	1,707,229	247,933	-	1,955,162
Construction in progress	<u>28,451,498</u>	<u>48,683,044</u>	<u>(26,882,128)</u>	<u>50,252,413</u>
	143,058,143	50,551,702	(7,408)	193,602,436
Less accumulated depreciation and amortization	<u>13,739,325</u>	<u>4,591,861</u>	<u>2,967</u>	<u>18,328,219</u>
	<u>\$ 129,318,818</u>	<u>\$ 45,959,841</u>	<u>\$ (10,375)</u>	<u>\$ 175,274,217</u>

Depreciation and amortization expense for the ten months ended June 30, 2013 totaled \$4,591,861.

Capitalized property and equipment acquired with public funds received by the School constitute public property pursuant to Chapter 12 of the Texas Educational Code. These assets are specifically identified on the Schedule of Capital Assets for Individual Charter School – IDEA.

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### Note 7 – Bond and Other Debt Issuance Costs

The costs of bond issuance are being amortized over a 30 year period. The costs of other debt issuance are being amortized over a 2 year period. Bond and other debt issuance costs at June 30, 2013 consisted of the following:

	<u>Issuance Cost</u>	<u>Accumulated Amortization</u>	<u>Unamortized Issuance Cost</u>	<u>Current Year Amortization</u>
Series 2007 bond issuance	\$ 1,311,917	\$ (255,095)	\$ 1,056,822	\$ 36,442
Series 2009 bond issuance	1,064,702	(127,093)	937,609	29,908
Series 2010 bond issuance	975,901	(83,509)	892,392	27,413
Series 2011 bond issuance	739,210	(39,242)	699,968	20,706
Series 2012 bond issuance	1,420,040	(39,721)	1,380,319	39,721
2011 Regions debt issuance title fees	85,146	(35,477)	49,669	35,477
2011 Regions debt issuance origination fees	<u>111,350</u>	<u>(45,090)</u>	<u>66,260</u>	<u>45,090</u>
	<u>\$ 5,708,266</u>	<u>\$ (625,227)</u>	<u>\$ 5,083,039</u>	<u>\$ 234,757</u>

### Note 8 – Bonds Payable

Changes in bonds payable at June 30, 2013 are as follows:

	<u>Balance at August 31, 2012</u>	<u>Retirements</u>	<u>Additions</u>	<u>Balance at June 30, 2013</u>
Series 2007 A bonds	\$ 34,360,000	\$ -	\$ -	\$ 34,360,000
Series 2009 A and B bonds	29,160,000	-	-	29,160,000
Series 2010 A and B bonds	33,900,000	-	-	33,900,000
Series 2010 Q bonds	7,555,000	-	-	7,555,000
Series 2011	26,480,000	-	-	26,480,000
Series 2012	<u>-</u>	<u>-</u>	<u>59,730,000</u>	<u>59,730,000</u>
	131,455,000	-	-	191,185,000
Less current portion	<u>1,955,000</u>	<u>-</u>	<u>-</u>	<u>1,955,000</u>
Net long-term bonds payable	<u>\$ 129,500,000</u>	<u>\$ -</u>	<u>\$ 59,730,000</u>	<u>\$ 189,230,000</u>

Interest expense for the ten months ended June 30, 2013 totaled \$8,784,979, of which \$2,172,439 was capitalized.

The Series 2010 Q Bonds tax credit interest subsidy for the ten months ended June 30, 2013 totaled \$207,385 and is reflected in Local Support, Other Revenues in the Statement of Activities and Changes in Net Assets.

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### **Note 8 – Bonds Payable (continued)**

#### ***Series 2007 A Bonds***

On June 6, 2007, the School issued \$36,930,000 of Education Revenue Bonds, Series 2007 A and \$165,000 of Taxable Education Revenue Bonds, Series 2007 B. Proceeds of the bonds were for construction and future debt service. The Series 2007 A bonds mature serially each August 15<sup>th</sup>, starting 2009 through 2037, with a stated interest rate ranging from 4% to 5%.

The School is required to maintain a debt service reserve fund, which currently is equal to the maximum annual principal and interest requirements of the 2007 bonds. The School paid an insurance premium of \$722,942 to ACA Financial Guaranty Corporation (“ACA”) to issue a bond insurance policy related to the bonds. ACA guarantees the full payment required to be made on behalf of the issuer. The Series 2007 A bonds are subject to optional redemption in whole or in part on August 15, 2017.

Section 5.11 of the Series 2007 A bonds covenants establishes a debt service coverage ratio, which stipulates that available revenues for each fiscal year (without excluding any discretionary expenses actually incurred in such fiscal year) must be equal to at least 1.10 times the annual debt service requirements of the School as of the end of the first fiscal year after the date of issuance of the bonds and thereafter until the bonds have been paid in full. During the ten months ended June 30, 2013, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

#### ***Series 2009 A and B Bonds***

On December 10, 2009, the School issued \$29,105,000 of Education Revenue Bonds, Series 2009 A and \$520,000 of Taxable Education Revenue Bonds, Series 2009 B. Proceeds of the bonds were for construction and future debt service. The Series 2009 A bonds mature serially each August 15<sup>th</sup>, starting 2013 through 2039, with a stated interest rate ranging from 3.45% to 6.50%. The Series 2009 B bonds mature serially each August 15<sup>th</sup>, starting 2012 through 2013, with a stated interest rate ranging from 5.75% to 6.05%.

The School is required to maintain a debt service reserve fund, which currently is equal to the maximum annual principal and interest requirements of the 2009 bonds. The Series 2009 A bonds are subject to optional redemption in whole or in part on August 15, 2019.

Section 5.9 of the Series 2009 A and B bonds covenants establish a debt service coverage ratio, which stipulates that available revenues for each fiscal year (without excluding any discretionary expenses actually incurred in such fiscal year) must be equal to at least 1.10 times the annual debt service requirements of the School as of the end of the first fiscal year after the date of issuance of the bonds and thereafter until the bonds have been paid in full. During the ten months ended June 30, 2013, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### **Note 8 – Bonds Payable (continued)**

#### ***Series 2010 A, B, and Q Bonds***

On December 7, 2010, the School issued \$33,780,000 of Education Revenue Bonds, Series 2010 A; \$120,000 of Taxable Education Revenue Bonds, Series 2010 B; and \$7,555,000 of Qualified School Construction Bonds – Direct Pay, Series Q. Proceeds of the bonds were for construction and future debt service. The Series 2010 A bonds mature serially each August 15<sup>th</sup>, starting 2020 through 2040, with a stated interest rate ranging from 5.125% to 6.700%. The Series 2009 B bonds mature August 15, 2013, with a stated interest rate of 7.500%.

The Series Q bonds mature August 15, 2029, with a stated interest rate of 8.250%. Interest on the Series A, B and Q bonds is due semi-annually on February 15 and August 15.

The School is required to maintain a debt service reserve fund, which currently is equal to the maximum annual principal and interest requirements of the 2010 bonds. The Series 2010 A bonds are subject to optional redemption in whole or in part on August 15, 2020.

The Series 2010 Q bonds have been designated as “qualified schools construction bonds” pursuant to Section 54F of the Internal Revenue Code of 1986, as amended (the “Code”) and are subject to an irrevocable election to treat such bonds as “specified tax credit bonds” pursuant to Section 6431(f) of the Code.

Section 5.10 of the Series 2010 A, B, and Q bonds covenants establishes a debt service coverage ratio, which stipulates that available revenues for each fiscal year (without excluding any discretionary expenses actually incurred in such fiscal year) must be equal to at least 1.10 times the annual debt service requirements of the School as of the end of the first fiscal year after the date of issuance of the bonds and thereafter until the bonds have been paid in full. During the ten months ended June 30, 2013, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

#### ***Series 2011 Bonds***

On December 8, 2011, the School issued \$26,480,000 of Education Revenue Bonds, Series 2011. Proceeds of the bonds were for construction and future debt service. The Series 2011 bonds mature serially each August 15<sup>th</sup>, starting 2014 through 2041, with a stated interest rate ranging from 3.20% to 5.75%.

The School is required to maintain a debt service reserve fund, which currently is equal to the maximum annual principal and interest requirements of the 2011 bonds. The Series 2011 bonds are subject to optional redemption in whole or in part on August 15, 2021.

Section 5.9 of the Series 2011 bonds covenant establishes a debt service coverage ratio, which stipulates that available revenues for each fiscal year (without excluding any discretionary expense actually incurred in such fiscal year) must be equal to at least 1.10 times the annual debt service requirements of the School as of the end of the first fiscal year after the date of issuance of the bonds and thereafter until the bonds have been paid in full. During the ten months ended June 30, 2013, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

**IDEA Public Schools, Inc.**

Notes to Financial Statements

June 30, 2013

**Note 8 – Bonds Payable (continued)**

***Series 2012 Bonds***

On August 17, 2012, the School issued \$59,730,000 of Education Revenue Bonds, Series 2012. Proceeds of the bonds were for construction and future debt service. The Series 2012 bonds mature serially each August 15<sup>th</sup>, starting 2014 through 2042, with a stated interest rate ranging from 2.15% to 5.00%.

The School is required to maintain a debt service reserve fund, which currently is equal to the maximum annual principal and interest requirements of the 2012 bonds. The Series 2012 bonds are subject to optional redemption in whole or in part on August 15, 2022.

Section 5.8 of the Series 2012 bonds covenant establishes a debt service coverage ratio, which stipulates that available revenues for each fiscal year (without excluding any discretionary expense actually incurred in such fiscal year) must be equal to at least 1.10 times the annual debt service requirements of the School as of the end of the first fiscal year after the date of issuance of the bonds and thereafter until the bonds have been paid in full. During the ten months ended June 30, 2013 the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

Debt service requirements for bonds payable for the ten months ended June 30, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Tax Credit Subsidy</u>	<u>Totals</u>
Year ending June 30:				
2014	\$ 1,955,000	\$ 10,393,224	\$ (414,769)	\$ 11,933,455
2015	3,595,000	10,284,799	(414,769)	13,465,030
2016	3,730,000	10,151,502	(414,769)	13,466,733
2017	3,865,000	10,008,705	(414,769)	13,458,936
2018	4,015,000	9,846,200	(414,769)	13,446,431
Thereafter	<u>174,025,000</u>	<u>136,555,766</u>	<u>(3,849,725)</u>	<u>306,731,041</u>
	<u>\$ 191,185,000</u>	<u>\$ 187,240,196</u>	<u>\$ (5,923,570)</u>	<u>\$ 372,501,626</u>



# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### Note 9 – Notes Payable

Notes payable at June 30, 2013 consist of the following:

A multiple draw term note payable to Regions Bank in the original amount equal to, or less than, \$20,000,000 during the draw period; requiring semi-annual payments of interest on the 15th day of February and August of each calendar year; beginning February 15, 2013 and continuing regularly and semi-annually thereafter at monthly LIBOR plus 3.25% through the earlier of the issuance by the School of additional bonds or September 25, 2014. The note is secured by a first and prior lien and security interest on any real property securing the Master Indenture and any other security pledged. The note is subject to various restrictive covenants, with which the School was in compliance as of June 30, 2013.

\$ 5,955,010

A term note payable to Charter Fund, Inc. in the original amount of \$400,000; maturing June 30, 2018; requiring monthly payments of principal and interest, with a \$400,000 balloon payment at the end of the term, including interest at 1% through June 30, 2018. This note is unsecured and subordinate to all other debt obligations of the School.

400,000

6,355,010

Less current portion

-

Net long-term notes payable

\$ 6,355,010

The future minimum payments for notes payable as of June 30, 2013 are as follows:

Year ending June 30:

2014	\$ -
2015	5,955,010
2016	-
2017	-
2018	400,000
Thereafter	<u>-</u>

Total future minimum lease payments

\$ 6,355,010

Interest capitalized for the ten months ended June 30, 2013 totaled \$59,937.

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### Note 10 – Capital Leases Payable

Capital leases payable at June 30, 2013 consisted of the following:

#### Buildings

Capital lease payable to RGV Professional, Ltd. in the original amount of \$978,060, requiring monthly payments in the amount of \$11,866, including interest at 8.0000% through April 2017; secured by the by the corresponding building acquired. \$ 468,767

#### Computer Equipment

Capital lease payable to Cisco Systems Capital Corp. in the original amount of \$21,441, requiring monthly payments in the amount of \$596, including interest at 0.0010% through July 2013; secured by the corresponding computer server. 596

\$ 469,363

The future minimum lease payments under the capital leases and the net present value of future minimum lease payments as of June 30, 2013 are as follows:

Year ending June 30:	
2014	\$ 142,994
2015	142,399
2016	142,399
2017	118,666
2018	-
Thereafter	<u>-</u>
Total future minimum lease payments	546,458
Less amount representing interest	<u>(77,095)</u>
Present value of future minimum lease payments	469,363
Less current portion	<u>(109,426)</u>
Net long-term capital leases payable	<u>\$ 359,937</u>

Interest expense for the ten months ended June 30, 2013 totaled \$10,416.

## IDEA Public Schools, Inc.

### Notes to Financial Statements

June 30, 2013

#### Note 11 – Long-Term Debt

Combined maturities for all long-term debt principal at June 30, 2013 are as follows:

	<b>Bonds Payable</b>	<b>Notes Payable</b>	<b>Capital Leases Payable</b>	<b>Total Maturities</b>
Year ending June 30, 2013				
2014	\$ 1,955,000	\$ -	\$ 109,426	\$ 2,064,426
2015	3,595,000	5,955,010	117,863	9,667,873
2016	3,730,000	-	127,646	3,857,646
2017	3,865,000	-	114,428	3,979,428
2018	4,015,000	400,000	-	4,415,000
Thereafter	174,025,000	-	-	174,025,000
	\$ 191,185,000	\$ 6,355,010	\$ 469,363	\$ 198,009,373

#### Note 12 – Deferred Revenues

Deferred revenues at June 30, 2013 consist of the following:

Carnegie Foundation	\$ 87,000
Michael and Susan Dell Foundation	143,605
Communities Foundation of Texas	100,000
Greater Texas Foundation	57,438
Kern Family Foundation	63,241
Ewing Halsell	1,519,724
Gen Youth Foundation	7,814
H-E-B Healthy Campus	1,111
Charter School Growth Fund	700,000
Bill and Melinda Gates Foundation	145,537
Walton Foundation	400,000
Karen and Tim Hixon	100,000
	\$ 3,325,470

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### Note 13 – Conditional Contributions

The School has conditional promises to give at June 30, 2013 as follows:

Ewing Halsell Foundation	\$ 7,000,000
George W. Brackenridge Foundation	800,000
Charter School Growth Fund	3,800,000
H-E-B Healthy Campus Grant	10,000
Karen and Tim Hixon	400,000
Michael and Susan Dell Foundation	300,000
	<u>300,000</u>
	\$ <u>12,310,000</u>

The future payments under the conditional promises to give at June 30, 2013 are as follows:

Year ending June 30:	
2014	\$ 3,805,000
2015	3,705,000
2016	3,800,000
2017	1,000,000
	<u>1,000,000</u>
	\$ <u>12,310,000</u>

Payment is contingent upon the School meeting certain criteria specified by the donor. As the condition for payment from the donor has not been met as of June 30, 2013, the amount has not been included in these financial statements.

### Note 14 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 consist of the following:

Child Nutrition Program	\$ 1,879,094
Summer Feeding Program	1,021
Instructional Materials Allotment	213,328
Foundation School Program	43,784,633
Campus Activity Funds	570,472
	<u>570,472</u>
	\$ <u>46,448,548</u>

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### Note 14 – Temporarily Restricted Net Assets (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Grants	\$ 3,127,261
Campus Activity Funds	1,295,228
Foundation School Program	81,126,602
Instructional Materials Allotment	535,571
Other State Programs	215,378
Federal Programs	10,025,563
Child Nutrition Program	<u>7,344,171</u>
	<u>\$ 103,669,774</u>

### Note 15 – Pension Plan Obligations

#### *Plan Description*

The School participates in the Teacher Retirement System of Texas (“TRS”), a public employee retirement system. TRS is a cost sharing, multiple-employer defined benefit plan with one exception: all risks and costs are not shared by the School, but are the liability of the state of Texas. TRS provides service retirement and disability retirement benefits and death benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in the Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teachers Retirement System of Texas, which is subject to amendment by the Texas Legislature. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. The report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-877-0123, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under TRS Publications.

#### *Funding Policy*

Under provisions in Texas state law, plan members are required to contribute 6.4% of their annual covered salary, and the state of Texas contributes an amount equal to 6.4% of the School’s covered payroll. Contribution requirements are not actuarially determined, but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member’s annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS’s unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or if the amortization period already exceeds 31 years, the period would be increased by such action. The School’s employees’ contributions to TRS for the year ended June 30, 2013, totaled \$3,464,524, equal to the required contributions for each year.

# IDEA Public Schools, Inc.

## Notes to Financial Statements

June 30, 2013

### Note 16 – Operating Leases

Future minimum payments on long-term noncancellable operating leases are as follows for the ten months ended June 30, 2013:

Year ending June 30:	
2014	\$ 968,951
2015	337,811
2016	127,289
2017	84,848
2018 and thereafter	<u>509,000</u>
	<u>\$ 2,027,899</u>

Rent expense for the ten months ended June 30, 2013 totaled \$652,651.

### Note 17 – Commitments and Contingencies

The School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency (“TEA”) and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the TEA or other grantor agency.

On July 28, 2013, the Board of Directors authorized the issuance of approximately \$64,000,000 in additional bonds for the purpose of capital improvements. Management anticipates the note payable to Regions Bank will be repaid with the proceeds from the bond issuance.

**IDEA Public Schools, Inc.**

Notes to Financial Statements

June 30, 2013

**Note 17 – Commitments and Contingencies (continued)**

At June 30, 2013, the School had the following construction commitments:

	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Remaining Commitment</u>
Alamo campus	\$ 3,256,263	\$ 2,409,202	\$ 847,061
Brownsville campus	9,886,458	8,675,173	1,211,285
Donna campus	7,184,575	6,607,750	576,825
Edinburg campus	6,839,156	5,781,214	1,057,942
Frontier campus	36,550	4,710	31,840.0
McAllen campus	9,763,626	6,586,852	3,176,774
Pharr campus	9,392,330	6,704,917	2,687,413
Quest campus	25,000	27,275	(2,275)
San Juan campus	30,000	11,839	18,161
San Antonio campus	9,870,706	7,475,567	2,395,139
Weslaco campus	6,726,249	4,880,349	1,845,900
Miscellaneous projects	<u>1,087,565</u>	<u>1,087,565</u>	<u>-</u>
	<u>\$ 64,098,478</u>	<u>\$ 50,252,413</u>	<u>\$ 13,846,065</u>

**Note 18 – Health Insurance**

During the ten months ended June 30, 2013, employees of the School were covered by a health insurance plan. The School contributes \$298 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.

**Note 19 – Supplementary Financial Information**

The School operates a single charter school. The School's only noncharter activity is the operation of an in-district charter school in the Austin Independent School District. The accompanying financial schedules, as prescribed by the *Special Supplement to the Financial Accountability System Resource Guide, Nonprofit Charter Schools*, and TEA, have been satisfied with the exhibits as presented in the Other Supplemental Information section.

Other Supplemental Information



# IDEA Public Schools, Inc.

## Exhibit B-1

### Statement of Activities for Individual Charter School – IDEA Ten Months Ended June 30, 2013

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues and Other Support</b>			
Local support:			
5740 Other revenues from local sources	\$ 399,176	\$ 6,362,955	\$ 6,762,131
5750 Other revenues from other activities	9,697	630,191	639,888
Total local support	408,873	6,993,146	7,402,019
State program revenues:			
5810 Foundation School Program Act revenues	-	93,904,129	93,904,129
5820 State program revenues distributed by the Texas Education Agency	-	780,017	780,017
5830 State revenues – other agencies	-	6,201	6,201
Total state program revenues	-	94,690,347	94,690,347
Federal program revenues:			
5920 Federal revenues distributed by the Texas Education Agency	-	12,944,154	12,944,154
5930 Federal revenues distributed by other State of Texas government agencies	14,393	-	14,393
5940 Federal revenues distributed directly from the federal government	-	4,614,558	4,614,558
Total federal program revenues	14,393	17,558,712	17,573,105
Net assets released from restrictions:			
Restrictions satisfied by payments	103,642,403	(103,642,403)	-
Total revenues	104,065,669	15,599,802	119,665,471
<b>Expenses</b>			
11 Instruction	43,438,679	-	43,438,679
12 Instructional resources and media services	1,524,397	-	1,524,397
13 Curriculum and instructional staff development	440,047	-	440,047
21 Instructional leadership	4,568,187	-	4,568,187
23 School leadership	9,907,792	-	9,907,792
31 Guidance, counseling, and evaluation services	3,964,662	-	3,964,662
33 Health services	657,762	-	657,762
34 Student (pupil) transportation	3,999,556	-	3,999,556
35 Food services	7,509,116	-	7,509,116
36 Cocurricular/extracurricular activities	1,162,351	-	1,162,351
41 General administration	6,464,815	-	6,464,815
51 Plant maintenance and operations	10,756,480	-	10,756,480
52 Security and monitoring services	340,712	-	340,712
53 Data processing services	1,927,204	-	1,927,204
61 Community services	51,708	-	51,708
71 Debt service	6,823,654	-	6,823,654
81 Fundraising	604,778	-	604,778
Total expenses	104,141,900	-	104,141,900
Gain on sale of asset	2,309	-	2,309
Change in net assets	(73,922)	15,599,802	15,525,880
Net assets at beginning of period	984,978	30,848,744	31,833,722
Net assets at end of period	\$ 911,056	\$ 46,448,546	\$ 47,359,602

**IDEA Public Schools, Inc.**

**Exhibit C-1**

**Schedule of Expenses for Individual Charter School – IDEA  
Ten Months Ended June 30, 2013**

**Expenses**

6100	Payroll costs	\$ 60,180,355
6200	Professional and contracted services	11,209,625
6300	Supplies and materials	14,560,886
6400	Other operating costs	11,367,380
6500	Debt	<u>6,823,654</u>
	Total expenses	\$ <u>104,141,900</u>

**IDEA Public Schools, Inc.**

Exhibit D-1

Schedule of Capital Assets for Individual Charter School – IDEA

June 30, 2013

<u>Asset Classification</u>	<u>Ownership Interest</u>		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
<b>Property and Equipment</b>			
1510 Land and improvements	\$ -	\$ 14,719,624	\$ -
1520 Building and improvements	-	119,303,392	30,601
1531 Vehicles	-	3,577,700	120,217
1539 Furniture and equipment	-	1,466,378	385,260
Capital leases:			
1542 Building Improvements	-	2,645,291	-
1551 Building	-	978,060	-
1559 Equipment	-	61,605	-
1580 Construction in progress	-	49,322,413	930,000
	<u>\$ -</u>	<u>\$ 192,074,463</u>	<u>\$ 1,466,078</u>

# IDEA Public Schools, Inc.

## Exhibit E-1 Budgetary Comparison Schedule for Individual Charter School – IDEA Ten Months Ended June 30, 2013

	<u>Budgeted Amounts</u>			<b>Variance With Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 9,179,002	\$ 6,407,499	\$ 6,762,131	\$ 354,632
5750 Other revenues from other activities	<u>863,939</u>	<u>584,939</u>	<u>639,888</u>	<u>54,949</u>
Total local support	<u>10,042,941</u>	<u>6,992,438</u>	<u>7,402,019</u>	<u>409,581</u>
State program revenues:				
5810 Foundation School Program Act revenues	90,657,317	90,657,317	93,904,129	3,246,812
5820 State program revenues distributed by the Texas Education Agency	464,650	825,786	780,017	(45,769)
5830 State revenues – other agencies	<u>-</u>	<u>6,201</u>	<u>6,201</u>	<u>-</u>
Total state program revenues	<u>91,121,967</u>	<u>91,489,304</u>	<u>94,690,347</u>	<u>3,201,043</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	11,030,072	12,066,044	12,944,154	878,110
5930 Federal revenues distributed by other State of Texas government agencies	-	13,364	14,393	1,029
5940 Federal revenues distributed directly from the federal government	<u>6,413,552</u>	<u>5,086,198</u>	<u>4,614,558</u>	<u>(471,640)</u>
Total federal program revenues	<u>17,443,624</u>	<u>17,165,606</u>	<u>17,573,105</u>	<u>407,499</u>
Total revenues	<u>118,608,532</u>	<u>115,647,348</u>	<u>119,665,471</u>	<u>4,018,123</u>
<b>Expenses</b>				
11 Instruction	43,269,072	46,355,037	43,438,679	2,916,358
12 Instructional resources and media services	923,580	1,680,431	1,524,397	156,034
13 Curriculum and instructional staff development	375,849	432,829	440,047	(7,218)
21 Instructional leadership	5,948,251	4,380,625	4,568,187	(187,562)
23 School leadership	9,859,252	9,145,462	9,907,792	(762,330)
31 Guidance, counseling and evaluation services	3,597,798	4,153,382	3,964,662	188,720
33 Health services	640,536	695,429	657,762	37,667
34 Student (pupil) transportation	4,639,665	4,232,593	3,999,556	233,037
35 Food services	7,531,081	7,718,893	7,509,116	209,777
36 Cocurricular/extracurricular activities	1,010,014	1,086,953	1,162,351	(75,398)
41 General administration	6,048,149	6,752,761	6,464,815	287,946
51 Plant maintenance and operations	10,441,042	10,819,357	10,756,480	62,877
52 Security and monitoring services	525,926	359,568	340,712	18,856
53 Data processing services	2,411,622	2,006,338	1,927,204	79,134
61 Community services	108,125	56,217	51,708	4,509
71 Debt service	8,806,513	6,757,498	6,823,654	(66,156)
81 Fundraising	<u>624,974</u>	<u>601,070</u>	<u>604,778</u>	<u>(3,708)</u>
Total expenses	<u>106,761,449</u>	<u>107,234,443</u>	<u>104,141,900</u>	<u>3,092,543</u>
Gain on sale of asset	<u>-</u>	<u>-</u>	<u>2,309</u>	<u>2,309</u>
Change in net assets	11,847,083	8,412,905	15,525,880	7,112,975
Net assets at beginning of period	<u>31,833,722</u>	<u>31,833,722</u>	<u>31,833,722</u>	<u>-</u>
Net assets at end of period	<u>\$ 43,680,805</u>	<u>\$ 40,246,627</u>	<u>\$ 47,359,602</u>	<u>\$ 7,112,975</u>

## IDEA Public Schools, Inc.

### Combining Statement of Financial Position

June 30, 2013

#### Assets

<b>Current Assets</b>	<b>IDEA Charter</b>	<b>AISD In-District Charter</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents	\$ 29,180,637	\$ 1,031,805	\$ 30,212,442
Cash and cash equivalents – restricted	6,303,936	-	6,303,936
Due from government agencies	16,902,914	-	16,902,914
Other receivables	1,305,260	1,943	1,307,203
Inventories	40,850	-	40,850
Prepaid expenses	452,483	-	452,483
Other current assets	751,162	-	751,162
	<u>54,937,242</u>	<u>1,033,748</u>	<u>55,970,990</u>
Total current assets			
 <b>Property and Equipment</b>			
Land and improvements	14,719,624	-	14,719,624
Buildings and improvements	120,312,053	-	120,312,053
Leasehold improvements	2,645,291	-	2,645,291
Vehicles	3,897,916	19,977	3,917,893
Furniture and equipment	1,713,245	41,917	1,755,162
Construction in progress	50,252,413	-	50,252,413
	<u>193,540,542</u>	<u>61,894</u>	<u>193,602,436</u>
Total property and equipment			
Less accumulated depreciation and amortization	18,283,685	44,534	18,328,219
	<u>175,256,857</u>	<u>17,360</u>	<u>175,274,217</u>
Net property and equipment			
 <b>Other Assets</b>			
Cash and cash equivalents – noncurrent – restricted	37,211,642	-	37,211,642
Bond and other debt issuance costs – net	5,083,039	-	5,083,039
Other assets	180,777	-	180,777
	<u>42,475,458</u>	<u>-</u>	<u>42,475,458</u>
Total other assets			
Total assets	<u>\$ 272,669,557</u>	<u>\$ 1,051,108</u>	<u>\$ 273,720,665</u>

**IDEA Public Schools, Inc.**

Combining Statement of Financial Position

June 30, 2013

(Continued)

Liabilities and Net Assets

<b>Current Liabilities</b>	<b>IDEA Charter</b>	<b>AISD In-District Charter</b>	<b>Total</b>
Accounts payable	\$ 7,352,224	\$ 7,847	\$ 7,360,071
Accrued wages payable	5,781,381	114,151	5,895,532
Accrued payroll expenses	162,394	4,459	166,853
Accrued interest payable	4,401,002	-	4,401,002
Accrued expenses	4,831,993	40,537	4,872,530
Deferred revenues	3,325,470	-	3,325,470
Other liabilities	101,860	194,751	296,611
Bonds payable – current portion	1,955,000	-	1,955,000
Capital leases payable – current portion	109,426	-	109,426
	28,020,750	361,745	28,382,495
Total current liabilities			
<b>Long-Term Liabilities</b>			
Bonds payable	189,230,000	-	189,230,000
Discount on issuance of bonds – net of amortization	1,344,258	-	1,344,258
Notes payable	6,355,010	-	6,355,010
Capital leases payable	359,937	-	359,937
	197,289,205	-	197,289,205
Total long-term liabilities			
Total liabilities	225,309,955	361,745	225,671,700
<b>Net Assets</b>			
Unrestricted	911,056	689,363	1,600,419
Temporarily restricted	46,448,546	-	46,448,546
	47,359,602	689,363	48,048,965
Total net assets			
Total liabilities and net assets	\$ 272,669,557	\$ 1,051,108	\$ 273,720,665

## IDEA Public Schools, Inc.

### Combining Statement of Activities and Changes in Net Assets Ten Months Ended June 30, 2013

	<u>IDEA Charter</u>	<u>AISD In-District Charter</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Local support:			
Contributions	\$ 424,760	\$ 5,050	\$ 429,810
Grants	3,127,261	-	3,127,261
Food service	639,888	-	639,888
Contracted service	-	4,023,748	4,023,748
Other revenues	3,210,110	25,063	3,235,173
	<u>7,402,019</u>	<u>4,053,861</u>	<u>11,455,880</u>
State program revenues:			
Foundation School Program	93,904,129	-	93,904,129
Other state aid	786,218	-	786,218
	<u>94,690,347</u>	<u>-</u>	<u>94,690,347</u>
Federal program revenues:			
ESEA Title I – Part A	3,784,940	-	3,784,940
ESEA Title II – Part A Teacher/Principal Training	478,542	-	478,542
ESEA Title III – Part A Language Acquisition	148,701	-	148,701
ESEA Title III – Part A Immigrant	6,208	-	6,208
ESEA Title V – Part B Charter Schools	582,404	-	582,404
ESEA Title I – Part G Advanced Placement Program	6,818	-	6,818
IDEA B Formula – Special Education	985,796	-	985,796
ARRA ESEA Race to the Top – District Grants	1,635,393	-	1,635,393
ARRA ESEA Title XIV – Investing in Innovation	1,166,727	-	1,166,727
HEA Title IV – Part A GEAR-UP – Connect2College	1,230,034	-	1,230,034
SSA Title XIX – School Health and Related Services	14,393	-	14,393
Child Nutrition	7,533,149	-	7,533,149
	<u>17,573,105</u>	<u>-</u>	<u>17,573,105</u>
Total revenues and other support	<u>119,665,471</u>	<u>4,053,861</u>	<u>123,719,332</u>

**IDEA Public Schools, Inc.**

Combining Statement of Activities and Changes in Net Assets  
Ten Months Ended June 30, 2013  
(Continued)

	<u>IDEA Charter</u>	<u>AISD In-District Charter</u>	<u>Total</u>
<b>Expenses</b>			
Program services:			
Instructional and instructional related services	\$ 45,403,123	\$ 1,721,647	\$ 47,124,770
Instructional and school leadership	<u>14,475,979</u>	<u>820,221</u>	<u>15,296,200</u>
Total program services	<u>59,879,102</u>	<u>2,541,868</u>	<u>62,420,970</u>
Support services:			
Administrative support services	6,464,815	39,128	6,503,943
Ancillary services	51,708	1,246	52,954
Support services – nonstudent based	13,024,396	358,382	13,382,778
Support services – student (pupil)	17,293,447	475,390	17,768,837
Debt service	6,823,654	-	6,823,654
Fundraising	<u>604,778</u>	<u>1,048</u>	<u>605,826</u>
Total support services	<u>44,262,798</u>	<u>875,194</u>	<u>45,137,992</u>
Total expenses	<u>104,141,900</u>	<u>3,417,062</u>	<u>107,558,962</u>
Gain on sale of asset	<u>2,309</u>	<u>-</u>	<u>2,309</u>
Change in net assets	15,525,880	636,799	16,162,679
Net assets at beginning of period	<u>31,833,722</u>	<u>52,564</u>	<u>31,886,286</u>
Net assets at end of period	<u>\$ 47,359,602</u>	<u>\$ 689,363</u>	<u>\$ 48,048,965</u>



# IDEA Public Schools, Inc.

## Combining Statement of Cash Flows Ten Months Ended June 30, 2013

	IDEA Charter	AISD In-District Charter	Total
<b>Cash Flows From Operating Activities</b>			
Change in net assets	\$ 15,525,880	\$ 636,799	\$ 16,162,679
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	4,744,964	43,248	4,788,212
Gain on disposal of asset	(2,309)	-	(2,309)
Changes in current assets and liabilities:			
Due from government agencies	(10,647,062)	565,144	(10,081,918)
Other receivables	68,896	43,221	112,117
Inventories	682,560	-	682,560
Prepaid expenses	499,414	36,678	536,092
Other current assets	(569,970)	-	(569,970)
Accounts payable	1,364,195	(452,838)	911,357
Accrued wages payable	3,013,812	38,026	3,051,838
Accrued payroll expenses	(498,503)	4,459	(494,044)
Accrued interest payable	3,737,665	-	3,737,665
Accrued expenses	2,025,994	27,335	2,053,329
Deferred revenues	1,437,988	(1,026,800)	411,188
Other liabilities	30,115	194,752	224,867
Net cash provided by operating activities	<u>21,413,639</u>	<u>110,024</u>	<u>21,523,663</u>
<b>Cash Flows Used In Investing Activities</b>			
Proceeds from redemption of certificate of deposit	201,911	-	201,911
Construction and purchase of property and equipment	(50,530,741)	(20,958)	(50,551,699)
Proceeds from disposal of property and equipment	6,750	-	6,750
Investment in notes receivable from graduates	(75,701)	-	(75,701)
Repayment of notes receivable from graduates	2,199	-	2,199
Net cash used in investing activities	<u>(50,395,582)</u>	<u>(20,958)</u>	<u>(50,416,540)</u>
<b>Cash Flows From Financing Activities</b>			
Proceeds from borrowings of long-term debt	66,531,964	-	66,531,964
Principal payments on long-term debt	(4,578,431)	-	(4,578,431)
Net cash provided by financing activities	<u>61,953,533</u>	<u>-</u>	<u>61,953,533</u>
Net increase in cash and cash equivalents	32,971,590	89,066	33,060,656
Cash and cash equivalents at beginning of period	<u>39,724,625</u>	<u>942,739</u>	<u>40,667,364</u>
Cash and cash equivalents at end of period	<u>\$ 72,696,215</u>	<u>\$ 1,031,805</u>	<u>\$ 73,728,020</u>
Cash and cash equivalents	\$ 29,180,637	\$ 1,031,805	\$ 30,212,442
Cash and cash equivalents – restricted	6,303,936	-	6,303,936
Cash and cash equivalents – noncurrent – restricted	<u>37,211,642</u>	<u>-</u>	<u>37,211,642</u>
Total cash and cash equivalents	<u>\$ 72,696,215</u>	<u>\$ 1,031,805</u>	<u>\$ 73,728,020</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid for interest	<u>\$ 4,918,824</u>	<u>\$ -</u>	<u>\$ 4,918,824</u>

Compliance Section

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Independent Auditor's 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*

To the Board of Directors  
IDEA Public Schools, Inc.  
Weslaco, 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 statement of financial position of IDEA Public Schools, Inc. (the "School") as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the ten months then ended, and have issued our report thereon dated August 23, 2013.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Public Funds Investment Act.

***Purpose of This Report***

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

*Padgett, Stratemann & Co., L.L.P.*

Certified Public Accountants  
August 23, 2013

Independent Auditor's Report on Compliance With  
Requirements That Could Have a Direct and Material  
Effect on Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors  
IDEA Public Schools, Inc.  
Weslaco, Texas

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

We have audited IDEA Public Schools, Inc.'s (the "School") 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 the School's major federal programs for the ten months ended June 30, 2013. The School's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with 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 the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the ten months ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, 2013-06, and 2013-07. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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 and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness. However, we identified certain deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, 2013-06, and 2013-07 that we consider to be significant deficiencies.

The School's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Padgett, Stratemann & Co., L.L.P.*

Certified Public Accountants  
August 23, 2013



**IDEA Public Schools, Inc.**

**Exhibit F-1  
Schedule of Findings and Questioned Costs  
Ten Months Ended June 30, 2013**

**I – Summary of Auditor’s Results**

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes  X  None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes  X  No

Federal Awards

Internal control over major programs:

Type of auditor’s report issued on compliance for major programs: Unqualified

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  X  Yes \_\_\_\_\_ None Reported

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133  X  Yes \_\_\_\_\_ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
84.010A	ESEA Title I – Part A
84.334A	HEA Title IV – Part A GEAR-UP – Connect2College
84.411A	ARRA ESEA Title XIV – Investing in Innovation
84.416A	ARRA ESEA Race To The Top – District Grants

Dollar threshold used to distinguish between type A and type B programs: \$527,193

Auditee qualified as low-risk auditee?  X  Yes \_\_\_\_\_ No

# IDEA Public Schools, Inc.

## Exhibit F-1 Schedule of Findings and Questioned Costs Ten Months Ended June 30, 2013 (Continued)

### II – Financial Statement Finding

None noted.

### III – Federal Awards Findings and Questioned Costs

#### Finding 2013-01: Allowable Costs/Cost Principles

**Federal Program: ARRA Race to the Top**

**CFDA Numbers: 84.416A**

**Pass-Through Entity Identifying Numbers: B416A130117**

**United States Department of Education**

**Type of Finding: Significant Deficiency**

*Criteria:* In accordance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations* (“OMB Circular A-122”), Paragraph 2f, costs charged to the grants must be adequately documented to be allowable under an award. Additionally, costs charged to grants should be reviewed by someone who is familiar with the specific grant requirements.

*Condition:* During our testing of general disbursements to the Race to the Top program, we noted transactions paid with credit card were not reviewed and approved by the grant director. No actual unallowed costs or noncompliance was noted during our testing.

*Questioned Costs:* None

*Possible Asserted Effect:* Increased risk that unallowed costs from credit card charges could be charged to the program and not detected by the School.

*Recommendation:* We recommend management establish and implement a process in which credit card transactions are reviewed and approved by the grant director or someone who is familiar with the specific grant requirements.

*Views of Responsible Officials and Planned Corrective Action:* Management concurs with the recommendation. The School has implemented procedures to ensure credit card transactions are reviewed and approved by the grant director familiar with the specific grant requirements in accordance with OMB Circular A-122.

*Responsible Person:* Vice President of Finance

*Implementation Date:* Completed

# IDEA Public Schools, Inc.

## Exhibit F-1 Schedule of Findings and Questioned Costs Ten Months Ended June 30, 2013 (Continued)

### **Finding 2013-02: Allowable Costs/Cost Principles**

**Federal Program: ARRA Race to the Top**

**CFDA Numbers: 84.416A**

**Pass-Through Entity Identifying Numbers: B416A130117**

**United States Department of Education**

**Type of Finding: Noncompliance & Significant Deficiency**

*Criteria:* In accordance with OMB Circular A-122, Paragraph 3b(4), *Identification of Indirect Costs, General Administration and General Expenses*, the expenses under this heading are those that have been incurred for the overall general executive and administrative offices of the organization and other expenses of a general nature, which do not relate solely to any major function of the organization. This category shall also include its allocable share of fringe benefit costs, operation and maintenance expense, depreciation and use allowances, and interest costs.

*Condition:* During our indirect cost testing to the Race to the Top program, we noted the salary of one employee was overcharged to this program.

*Questioned Costs:* None. Known and likely questioned costs is less than \$10,000.

*Possible Asserted Effect:* Indirect cost is not being properly allocated in accordance with OMB Circular A-122.

*Recommendation:* We recommend management establish and implement a process to ensure indirect cost allocation is properly calculated among the different indirect cost categories.

*Views of Responsible Officials and Planned Corrective Action:* Management concurs with the recommendation. The School has implemented procedures to ensure indirect cost allocation is properly calculated among different indirect cost categories in accordance with OMB Circular A-122.

*Responsible Person:* Vice President of Finance

*Implementation Date:* Completed

**IDEA Public Schools, Inc.**

**Exhibit F-1**  
**Schedule of Findings and Questioned Costs**  
**Ten Months Ended June 30, 2013**  
**(Continued)**

**Finding 2013-03: Allowable Costs/Cost Principles**

**Federal Program: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)**

**CFDA Numbers: 84.334A**

**Pass-Through Entity Identifying Numbers: P334A120084**

**United States Department of Education**

**Type of Finding: Noncompliance and Significant Deficiency**

*Criteria:* Allowed costs for this program are specified in the grant budget. The budget includes the rate of pay for tutors paid from grant funds at a rate of \$10.

*Condition:* During our testing of payroll related to the GEAR-UP program, we noted the approved pay rate included in the grant budget for tutors is \$10. However, an employee was getting paid \$20 per hour.

*Questioned Costs:* None. Known and likely questioned costs are less than \$10,000.

*Possible Asserted Effect:* Unallowable cost is being charged to the grant and, therefore, is not in accordance with OMB Circular A-122.

*Recommendation:* We recommend management review the rates paid to all employees and ensure they are the proper rates included in the grant budget.

*Views of Responsible Officials and Planned Corrective Action:* Management concurs with the recommendation. The School has implemented procedures to ensure the approved rate is being applied in accordance with the grant budget and OMB Circular A-122.

*Responsible Person:* Vice President of Finance

*Implementation Date:* Completed

**IDEA Public Schools, Inc.**

**Exhibit F-1**  
**Schedule of Findings and Questioned Costs**  
**Ten Months Ended June 30, 2013**  
**(Continued)**

**Finding 2013-4: Matching**

**Federal Program: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)**

**CFDA Numbers: 84.334A**

**Pass-Through Entity Identifying Numbers: P334A120084**

**United States Department of Education**

**Type of Finding: Significant Deficiency**

*Criteria:* In accordance with the approved grant, the School is required under this program to provide state, local, institutional, or private funds of not less than 50% of the cost of the program, which may be provided in cash or in-kind.

*Condition:* During our testing of matching to the GEAR-UP program, we noted the School did not have an adequate process to monitor or track in-kind matching requirements.

*Questioned Costs:* None

*Possible Asserted Effect:* Matching is not being tracked and monitored to ensure compliance with the matching requirements.

*Recommendation:* We recommend management establish and implement a process to ensure the matching requirements are being met and to ensure in-kind contributions are in accordance with grant requirements.

*Views of Responsible Officials and Planned Corrective Action:* Management concurs with the recommendation. The School has implemented procedures to ensure matching requirements are being met and are in accordance with grant requirements.

*Responsible Person:* Vice President of Finance

*Implementation Date:* Completed

**IDEA Public Schools, Inc.**

**Exhibit F-1**

**Schedule of Findings and Questioned Costs**

Ten Months Ended June 30, 2013

(Continued)

**Finding 2013-05: Allowable Costs/Cost Principles**

**Federal Program: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)**

**CFDA Numbers: 84.334A**

**Pass-Through Entity Identifying Numbers: P334A120084**

**United States Department of Education**

**Type of Finding: Noncompliance and Significant Deficiency**

*Criteria:* In accordance with OMB Circular A-122, Paragraph 8m, *Support of Salaries and Wages*, the distribution of salaries and wages must be supported by personnel activity reports, must be prepared at least monthly, and must coincide with one or more pay periods.

*Condition:* During our testing of payroll costs charged to the GEAR-UP program, we noted the time and effort report for the grant director was divided evenly between this grant and the general fund. It appears the grant director's payroll allocation is based on a budgeted allocation instead of an actual after-the-fact determination of actual hours worked on the program.

*Questioned Costs:* \$34,265, representing total payroll costs of the grant director charged to this program.

*Possible Asserted Effect:* Charges for salaries and wages are not supported in accordance with OMB Circular A-122.

*Recommendation:* We recommend management monitor the time that is being certified and compare it against timesheets to ensure all employee salaries charged to the GEAR-UP program are in accordance with the requirements of OMB Circular A-122.

*Views of Responsible Officials and Planned Corrective Action:* Management concurs with the recommendation. The School has implemented procedures to ensure monitoring of time and effort records to reflect an actual after-the-fact determination of actual hours worked on the program in accordance with OMB Circular A-122.

*Responsible Person:* Vice President of Finance

*Implementation Date:* Completed

# IDEA Public Schools, Inc.

## Exhibit F-1 Schedule of Findings and Questioned Costs Ten Months Ended June 30, 2013 (Continued)

### **Finding 2013-06: Subrecipient Monitoring**

**Federal Program: ARRA ESEA Title XIV – Investing in Innovation**

**CFDA Numbers: 84.411A**

**Pass-Through Entity Identifying Numbers: U396C100748**

**United States Department of Education**

**Type of Finding: Noncompliance and Significant Deficiency**

*Criteria:* In accordance with OMB Circular A-133, pass-through entities are responsible for monitoring awards to subrecipients. Monitoring includes identification of the program as a federal award and the respective compliance requirements, ongoing monitoring of the subrecipient activities, and review of the subrecipient's audit report for compliance with OMB Circular A-133.

*Condition:* During our testing of subrecipient monitoring, we noted the School obtained the audited financial statements for its subrecipient; however, the School did not identify that the subaward made was excluded from the Schedule of Expenditures of Federal Awards of the subrecipient and, therefore, was not subject to audit at the subrecipient level.

*Questioned Costs:* None

*Possible Asserted Effect:* Exclusion from the subrecipients Schedule of Expenditures of Federal Awards prevented this program from possible selection as a major program under the requirements of OMB Circular A-133.

*Recommendation:* We recommend management develop a checklist to ensure it is reviewing the subrecipient audit report for all requirements.

*Views of Responsible Officials and Planned Corrective Action:* Management concurs with the recommendation. The School has implemented procedures to ensure proper subrecipient monitoring for compliance with OMB Circular A-133.

*Responsible Person:* Vice President of Finance

*Implementation Date:* Completed

**IDEA Public Schools, Inc.**

**Exhibit F-1**  
**Schedule of Findings and Questioned Costs**  
**Ten Months Ended June 30, 2013**  
**(Continued)**

**Finding 2013-07: Allowable Costs/Cost Principles**

**Federal Program: ARRA ESEA Title XIV – Investing in Innovation**

**CFDA Numbers: 84.411A**

**Pass-Through Entity Identifying Numbers: U396C100748**

**United States Department of Education**

**Type of Finding: Noncompliance and Significant Deficiency**

*Criteria:* In accordance with OMB Circular A-122, costs must be reasonable for the performance of the grant award.

*Condition:* During our audit testing, we noted country club dues of approximately \$600 were charged to this program, which are not included in the program budget and are not considered a necessary and reasonable cost for the performance of this grant.

*Questioned Costs:* None. Known and likely questioned costs is less than \$10,000.

*Possible Asserted Effect:* Unallowable cost is being charged to the grant and, therefore, is not in accordance with OMB Circular A-122.

*Recommendation:* We recommend management strengthen its controls over the review of expenditures charged to grants to ensure unallowed costs are identified. Additionally, all staff approving or charging expenditures to grants should receive training in grant cost principles and specific grant requirements.

*Views of Responsible Officials and Planned Corrective Action:* Management concurs with the recommendation. The School has implemented procedures to ensure unallowable costs are identified and not charged to the grant in accordance with OMB Circular A-122.

*Responsible Person:* Vice President of Finance

*Implementation Date:* Completed



# IDEA Public Schools, Inc.

## Exhibit G-1

### Corrective Action Plan Ten Months Ended June 30, 2013

#### **2013-01: ARRA Race to the Top – Allowable Costs/Cost Principles**

*Corrective Action Plan:* The School has implemented procedures to ensure credit card transactions are reviewed and approved by the grant director familiar with the specific grant requirements in accordance with OMB Circular A-122.

#### **2013-02: ARRA Race to the Top – Allowable Costs/Cost Principles**

*Corrective Action Plan:* The School has implemented procedures to ensure indirect cost allocation is properly calculated among different indirect cost categories in accordance with OMB Circular A-122.

#### **2013-03: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) – Allowable Costs/Cost Principles**

*Corrective Action Plan:* The School has implemented procedures to ensure the approved rate is being applied in accordance with the grant budget and OMB Circular A-122.

#### **2013-04: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) – Matching**

*Corrective Action Plan:* The School has implemented procedures to ensure matching requirements are being met and are in accordance with grant requirements.

#### **2013-05: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) – Allowable Costs/Cost Principles**

*Corrective Action Plan:* The School has implemented procedures to ensure monitoring of time and effort records to reflect an actual after-the-fact determination of actual hours worked on the program in accordance with OMB Circular A-122.

#### **2013-06: ARRA ESEA Title XIV – Investing in Innovation – Subrecipient Monitoring**

*Corrective Action Plan:* The School has implemented procedures to ensure proper subrecipient monitoring for compliance with OMB Circular A-133.

#### **2013-07: ARRA ESEA Title XIV – Investing in Innovation – Allowable Costs/Costs Principles**

*Corrective Action Plan:* The School has implemented procedures to ensure unallowable costs are identified and not charged to the grant in accordance with OMB Circular A-122.

**IDEA Public Schools, Inc.**

Summary Schedule of Prior Audit Findings  
Ten Months Ended June 30, 2013

All prior year comments were satisfactorily resolved.

# IDEA Public Schools, Inc.

## Exhibit H-1 Schedule of Expenditures of Federal Awards Ten Months Ended June 30, 2013

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>United States Department of Education:</u>			
Direct Program:			
ESEA Title V – Part B Charter Schools	84.282M	U282M100007	\$ 582,404
ARRA ESEA Title XIV – Investing in Innovation	84.411A	U396C100748	1,166,727
HEA Title IV – Part A GEAR-UP – Connect2College	84.334A	P334A120084	1,230,034
ARRA ESEA Race To The Top – District Grants	84.416A	B416A130117	<u>1,635,393</u>
Total Direct Program			<u>4,614,558</u>
Passed Through State Department of Education:			
ESEA Title I – Part A	84.010A	13610101108807	3,784,940
ESEA Title II – Part A Teacher/Principal Training	84.367A	13694501108807	478,542
ESEA Title III – Part A Language Acquisition	84.365A	13671001108807	148,701
ESEA Title III – Part A Immigrant	84.365A	13671003108807	6,208
IDEA B Formula – Special Education	84.027A	13660001108807660	985,796
ESEA Title I – Part G Advanced Placement Program	84.330B	51061201	<u>6,818</u>
Total Passed Through State Department of Education			<u>5,411,005</u>
Total United States Department of Education			<u>10,025,563</u>
<u>United States Department of Agriculture:</u>			
Passed Through State Department of Education:			
National School Breakfast Program	10.553	71401301	2,517,499
National School Lunch Program	10.555	71301301	4,845,913
USDA Commodities	10.555	71301301	<u>169,737</u>
Total Passed Through State Department of Education			<u>7,533,149</u>
Total United States Department of Agriculture			<u>7,533,149</u>
<u>United States Department of Health and Human Services:</u>			
Passed Through Texas Health and Human Services Commission:			
SSA Title XIX – School Health and Related Services	93.778	N/A	<u>14,393</u>
Total Passed Through Texas Health and Human Services Commission			<u>14,393</u>
Total United States Department of Health and Human Services			<u>14,393</u>
Total Expenditures of Federal Awards			<u>\$ 17,573,105</u>

**IDEA Public Schools, Inc.**

**Notes to Schedule of Expenditures of Federal Awards  
Ten Months Ended June 30, 2013**

**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the School under programs of the federal government for the ten months ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the School.

**Note 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**Note 3 – Standard Financial Accounting System**

For all federal programs, the School used the net asset classes and codes specified by the TEA in the *Special Supplement to Financial Accounting and Reporting, Non-Profit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

**Note 4 – Subrecipients**

Of the federal expenditures presented in the Schedule, the School provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipient</u>
84.411A	ARRA ESEA Title XIV – Investing in Innovation	\$ 533,949

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