

IDEA Public Schools, Inc.

Financial and Compliance Report

August 31, 2012

IDEA Public Schools, Inc.
Financial and Compliance Report
For the Year Ended August 31, 2012

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IDEA Public Schools, Inc.
Financial and Compliance Report
For the Year Ended August 31, 2012

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IDEA Public Schools, Inc.

Board of Directors

Mike Rhodes, Chairman

Brian Disque, Vice Chairman

Bill Martin, Secretary

Bill Carrera, CPA, Treasurer

Thomas E. Torkelson, Member

Elisa Villanueva-Beard, Member

David Guerra, Member

Gabriel Puente, Member

Ruben M. Lopez, MD, Member

Eric Ziehe, Member

Sergio Sanchez, Member

David Merrill, Member

Reba Cardenas-McNair, Member

Paul Sale, PhD, 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 year ended August 31, 2012, at a meeting of the governing body of the charter holder on the 26th day of October, 2012.



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 Auditors' Report

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

We have audited the accompanying statement of financial position of IDEA Public Schools, Inc. (the "School") as of August 31, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the School. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of August 31, 2012, and the results of its operations and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

SAN ANTONIO

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SAN ANTONIO, TEXAS 78216
210 828 6281

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's financial statements. The accompanying Other Supplemental Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the OMB 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 Other Supplemental Information and the Schedule of Expenditure of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

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

Certified Public Accountants
October 23, 2012

Financial Statements

IDEA Public Schools, Inc.

Exhibit A-1 Statement of Financial Position August 31, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$ 40,667,364
Due from government agencies	6,822,939
Other receivables	1,417,377
Investments	201,911
Inventories	68,491
Prepaid expenses	988,575
Other current assets	181,192
	<hr/>
Total current assets	50,347,849

Property and Equipment

Land and improvements	12,851,068
Building and improvements	93,942,602
Leasehold improvements	2,632,602
Vehicles	3,473,144
Furniture and equipment	1,707,229
Construction in progress	28,451,498
	<hr/>
Total property and equipment	143,058,143
Less accumulated depreciation and amortization	<hr/>
	13,739,325
	<hr/>
Net property and equipment	129,318,818

Other Assets

Bond and other debt issuance costs – net	3,701,260
Other assets	762,194
	<hr/>
Total other assets	4,463,454
	<hr/>
Total assets	\$ 184,130,121

Notes to financial statements form an integral part of these statements.

IDEA Public Schools, Inc.

Exhibit A-1
Statement of Financial Position
August 31, 2012
(Continued)

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 6,448,714
Accrued wages payable	2,843,694
Accrued payroll expenses	660,897
Accrued interest payable	663,337
Accrued expenses	2,819,201
Deferred revenues	2,914,281
Other liabilities	71,744
Bonds payable – current portion	1,955,000
Note payable – current portion	4,000,000
Capital leases payable – current portion	<u>596,568</u>
Total current liabilities	<u>22,973,436</u>

Long-Term Liabilities

Bonds payable	129,500,000
Premium on issuance of bonds – net of amortization	(680,827)
Capital leases payable	<u>451,226</u>
Total long-term liabilities	<u>129,270,399</u>
Total liabilities	<u>152,243,835</u>

Net Assets

Unrestricted	1,037,542
Temporarily restricted	<u>30,848,744</u>
Total net assets	<u>31,886,286</u>
Total liabilities and net assets	<u>\$ 184,130,121</u>

Notes to financial statements form an integral part of these statements.

IDEA Public Schools, Inc.

Exhibit A-2

Statement of Activities and Changes in Net Assets
Year Ended August 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Local support:			
Contributions	\$ 462,451	\$ 3,631,419	\$ 4,093,870
Grants	-	3,463,176	3,463,176
Food service	23,616	623,289	646,905
Other revenues	<u>134,354</u>	<u>3,268,074</u>	<u>3,402,428</u>
Total local support	<u>620,421</u>	<u>10,985,958</u>	<u>11,606,379</u>
State program revenues:			
Foundation School Program	-	71,593,101	71,593,101
Other state aid	<u>-</u>	<u>1,216,398</u>	<u>1,216,398</u>
Total state program revenues	<u>-</u>	<u>72,809,499</u>	<u>72,809,499</u>
Federal program revenues:			
ESEA Title I – Education Jobs Fund	-	31,200	31,200
ESEA Title I – Part A	-	2,698,414	2,698,414
ESEA Title II – Part A Teacher/Principal Training	-	493,189	493,189
ESEA Title III – Part A Language Acquisition	-	182,798	182,798
ESEA Title VI – Part A Summer School LEP	-	14,428	14,428
ESEA Title V – Part B Charter Schools	-	6,764,966	6,764,966
IDEA B Formula – Special Education	-	969,334	969,334
IDEA B Preschool – Special Education	-	5,011	5,011
ARRA ESEA Title I – Part A	-	61,901	61,901
ARRA ESEA Title XIV – State Fiscal Stabilization	-	127,171	127,171
ARRA ESEA Title XIV – Investing in Innovation	-	1,317,871	1,317,871
HEA Title IV – Part A GEAR-UP – Connect2College	-	44,946	44,946
Child Nutrition	<u>-</u>	<u>5,366,743</u>	<u>5,366,743</u>
Total federal program revenues	<u>-</u>	<u>18,077,972</u>	<u>18,077,972</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>93,823,832</u>	<u>(93,823,832)</u>	<u>-</u>
Total revenues and other support	<u>94,444,253</u>	<u>8,049,597</u>	<u>102,493,850</u>

Notes to financial statements form an integral part of these statements.

IDEA Public Schools, Inc.

Exhibit A-2
Statement of Activities and Changes in Net Assets
Year Ended August 31, 2012
(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Expenses			
Program services:			
Instructional and instructional related services	\$ 39,065,891	\$ -	\$ 39,065,891
Instructional and school leadership	<u>14,482,880</u>	<u>-</u>	<u>14,482,880</u>
Total program services	<u>53,548,771</u>	<u>-</u>	<u>53,548,771</u>
Support services:			
Administrative support services	6,285,730	-	6,285,730
Ancillary services	55,557	-	55,557
Support services – nonstudent based	13,974,624	-	13,974,624
Support services – student (pupil)	13,183,272	-	13,183,272
Debt service	6,446,639	-	6,446,639
Fundraising	<u>568,126</u>	<u>-</u>	<u>568,126</u>
Total support services	<u>40,513,948</u>	<u>-</u>	<u>40,513,948</u>
Total expenses	<u>94,062,719</u>	<u>-</u>	<u>94,062,719</u>
Change in net assets	381,534	8,049,597	8,431,131
Net assets at beginning of year – as restated (Note 22)	<u>656,008</u>	<u>22,799,147</u>	<u>23,455,155</u>
Net assets at end of year	<u>\$ 1,037,542</u>	<u>\$ 30,848,744</u>	<u>\$ 31,886,286</u>

Notes to financial statements form an integral part of these statements.

IDEA Public Schools, Inc.

Exhibit A-3 Statement of Cash Flows Year Ended August 31, 2012

Cash Flows From Operating Activities

Change in net assets	\$ 8,431,131
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	4,460,871
Interest income	(294)
Loss on disposal of personal property	1,317
Changes in current assets and liabilities:	
Due from government agencies	(1,137,025)
Other receivables	(562,674)
Inventories	339,014
Prepaid expenses	287,085
Other assets	(120,912)
Accounts payable	(58,157)
Accrued wages payable	841,300
Accrued payroll expenses	171,034
Accrued interest payable	86,792
Accrued expenses	1,067,289
Deferred revenues	1,665,198
Other liabilities	27,145
	<u>15,499,114</u>
Net cash provided by operating activities	<u>15,499,114</u>

Cash Flows Used In Investing Activities

Purchase of certificate of deposit	(201,726)
Proceeds from redemption of certificate of deposit	131,081
Construction and purchase of property and equipment	(35,553,563)
Proceeds from disposal of property and equipment	12,199
Investment in notes receivable from graduates	(60,886)
Repayment of notes receivable from graduates	525
	<u>(35,672,370)</u>
Net cash used in investing activities	<u>(35,672,370)</u>

Cash Flows From Financing Activities

Proceeds from borrowings of long-term debt	28,965,864
Principal payments on long-term debt	(6,430,070)
	<u>22,535,794</u>
Net cash provided by financing activities	<u>22,535,794</u>

 Net increase in cash and cash equivalents 2,362,538

Cash and cash equivalents at beginning of year 38,304,826

Cash and cash equivalents at end of year \$ 40,667,364

Supplemental Disclosure of Cash Flow Information

Cash paid for interest \$ 7,462,408

Notes to financial statements form an integral part of these statements.

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

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. 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

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 August 31, 2012, 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.

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 August 31, 2012, the School had no permanently restricted net assets.

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 1 – Organization and Significant Accounting Policies (continued)

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.

Inventories

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

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 1 – Organization and Significant Accounting Policies (continued)

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	5-10 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 year ended August 31, 2012.

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.

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 1 – Organization and Significant Accounting Policies (continued)

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, 2008.

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.

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 1 – Organization and Significant Accounting Policies (continued)

Advertising Costs

The School expenses advertising costs when they are incurred. Advertising costs for the year ended August 31, 2012 totaled \$229,977.

Subsequent Events

The School has evaluated subsequent events that occurred after August 31, 2012 through the date of this report on October 23, 2012. 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 August 31, 2012, all investments were classified as Level 1.

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.

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents at August 31, 2012 consisted of the following:

Petty cash	\$ 205
Checking accounts	23,383,340
Money market accounts	<u>17,283,819</u>
Total	\$ <u>40,667,364</u>

Cash and cash equivalents were temporarily restricted as follows:

Construction	\$ 6,919,143
Debt service requirements for bonds	<u>10,353,462</u>
Total	\$ <u>17,272,605</u>

Note 4 – Concentration of Credit Risk

The School maintains its cash deposits at Wells Fargo, Public Funds Administration and is insured up to \$23,738,676 by the Federal Deposit Insurance Corporation. Investment securities held by Wells Fargo that had a carrying value at August 31, 2012 of \$69,896 were pledged as collateral to secure public funds on deposit.

The School maintains proceeds received from the sale of bonds at Wells Fargo, Corporate Trust Services in fiduciary accounts. The Office of the Comptroller of the Currency, Regulation 9, requires that national banks collateralize uninvested cash in fiduciary accounts. At August 31, 2012, assets held by Wells Fargo were pledged as collateral as a whole for all Wells Fargo 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

August 31, 2012

Note 5 – Due From Government Agencies

Amounts due from government agencies at August 31, 2012 consist of the following:

Texas Department of Education, Texas Education Agency (“TEA”)	\$ 2,586,176
United States Department of Education	3,761,987
United States Department of Education passed through TEA	287,079
Texas Department of Agriculture	3,799
United States Department of Agriculture passed through TEA	<u>183,898</u>
 Total	 <u><u>\$ 6,822,939</u></u>

Note 6 – Investments

Investments measured at fair value at August 31, 2012 consisted of the following:

Certificate of deposit; maturing October 5, 2012; interest of 0.15%	<u><u>\$ 201,911</u></u>
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Interest income during the year ended August 31, 2012 totaled \$185.

The certificate of deposit with a maturity of October 5, 2012 is pledged as security for an irrevocable standby letter of credit for the benefit of the City of McAllen. The letter of credit expires on October 5, 2012.

Note 7 – Property and Equipment

Property and equipment at August 31, 2012 consist of the following:

	<u>Balance at August 31, 2011</u>	<u>Additions</u>	<u>Deductions and Transfers</u>	<u>Balance at August 31, 2012</u>
Land and improvements	\$ 10,237,435	\$ 2,613,633	\$ -	\$ 12,851,068
Buildings and improvements	51,941,201	42,001,401	-	93,942,602
Leasehold improvements	2,632,602	-	-	2,632,602
Vehicles	2,890,727	609,635	27,218	3,473,144
Furniture and equipment	884,672	822,557	-	1,707,229
Construction in progress	<u>38,945,161</u>	<u>26,850,419</u>	<u>37,344,082</u>	<u>28,451,498</u>
	107,531,798	72,897,645	37,371,300	143,058,143
Less accumulated depreciation and amortization	<u>9,582,361</u>	<u>4,170,666</u>	<u>13,702</u>	<u>13,739,325</u>
	<u><u>\$ 97,949,437</u></u>	<u><u>\$ 68,726,979</u></u>	<u><u>\$ 37,357,598</u></u>	<u><u>\$ 129,318,818</u></u>

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 7 – Property and Equipment (continued)

Depreciation and amortization expense for the year ended August 31, 2012 totaled \$4,170,666.

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.

Note 8 – Bond Issuance Costs

The costs of bond issuance are being amortized over a 30 year period. Bond issuance costs at August 31, 2012 consisted of the following:

	<u>Bond Cost</u>	<u>Accumulated Amortization</u>	<u>Unamortized Bond Cost</u>	<u>Current Year Amortization</u>
Series 2007 bond issuance	\$ 1,311,917	\$ (218,653)	\$ 1,093,264	\$ 43,731
Series 2009 bond issuance	1,064,702	(97,183)	967,517	35,890
Series 2010 bond issuance	975,901	(56,096)	919,805	32,896
Series 2011 bond issuance	<u>739,210</u>	<u>(18,536)</u>	<u>720,674</u>	<u>18,536</u>
	<u>\$ 4,091,730</u>	<u>\$ (390,468)</u>	<u>\$ 3,701,260</u>	<u>\$ 131,053</u>

Note 9 – Bonds Payable

Changes in bonds payable at August 31, 2012 are as follows:

	<u>Balance at August 31, 2011</u>	<u>Retirements</u>	<u>Additions</u>	<u>Balance at August 31, 2012</u>
Series 2007 A bonds	\$ 35,085,000	\$ (725,000)	\$ -	\$ 34,360,000
Series 2009 A and B bonds	29,625,000	(465,000)	-	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 bonds	<u>-</u>	<u>-</u>	<u>26,480,000</u>	<u>26,480,000</u>
	106,165,000	\$ <u>(1,190,000)</u>	\$ <u>26,480,000</u>	131,455,000
Less current portion	<u>1,190,000</u>			<u>1,955,000</u>
Net long-term bonds payable	<u>\$ 104,975,000</u>			<u>\$ 129,500,000</u>

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 9 – Bonds Payable (continued)

Interest expense for the year ended August 31, 2012 totaled \$7,341,747, of which \$1,424,251 was capitalized.

The Series 2010 Q Bonds tax credit interest subsidy for the year ended August 31, 2012 totaled \$414,769 and is reflected in Local Support, Other Revenues in the Statement of Activities.

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 15th, starting 2009 through 2037, with a stated interest rate ranging from 4.0% to 5.0%.

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 year ended August 31, 2012, 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 15th, 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 15th, 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

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 9 – Bonds Payable (continued)

Series 2009 A and B Bonds (continued)

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 year ended August 31, 2012, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

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 15th, 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 year ended August 31, 2012, 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 15th, 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.

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 9 – Bonds Payable (continued)

Series 2011 Bonds (continued)

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 year ended August 31, 2012, 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 year ended August 31, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Tax Credit Subsidy</u>	<u>Totals</u>
Year ending August 31:				
2013	\$ 1,955,000	\$ 7,640,771	\$ (414,770)	\$ 9,181,001
2014	2,495,000	7,552,327	(414,770)	9,632,557
2015	2,605,000	7,447,570	(414,770)	9,637,800
2016	2,715,000	7,334,698	(414,770)	9,634,928
2017	2,835,000	7,214,312	(414,770)	9,634,542
Thereafter	<u>118,850,000</u>	<u>99,137,966</u>	<u>(4,057,110)</u>	<u>213,930,856</u>
	<u>\$ 131,455,000</u>	<u>\$ 136,327,644</u>	<u>\$ (6,130,960)</u>	<u>\$ 261,651,684</u>

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 10 – Note Payable

Note payable at August 31, 2012 consists of the following:

A multiple draw term note payable to Regions Bank in the original amount equal to or less than \$4,250,000 during the draw period, requiring monthly payments of interest at monthly LIBOR plus 4.0000% (4.2385% at August 31, 2012) through the earlier of the issuance by the School of additional bonds or September 16, 2012. The note is secured by a subordinate and junior lien to the Adjusted Revenues securing the Master Trust Indenture and Security Agreement dated May 1, 2007 between the School and Wells Fargo Bank, together with any subsequent amendments, restatements, supplements or modifications. The note is subject to various restrictive covenants, with which the School was in compliance as of August 31, 2012. This note was paid in full in September 2012.

	\$ 4,000,000
Less current portion	<u>4,000,000</u>
Net long-term notes payable	<u><u>\$ -</u></u>

Interest expense for the year ended August 31, 2012 totaled \$110,900, of which \$45,551 was capitalized.

Note 11 – Capital Leases Payable

Capital leases payable at August 31, 2012 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 8.000% through April 2017. The lease is secured by the corresponding building acquired.

	\$ 553,060
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IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 11 – Capital Leases Payable (continued)

Computer Equipment

Capital lease payable to Apple, Inc. in the original amount of \$1,387,369, requiring an annual payment in the amount of \$489,540, including interest at 4.9000% through September 2012. The lease is secured by the corresponding computers acquired.	\$ 466,638
Capital lease payable to Apple, Inc. in the original amount of \$64,681, requiring an annual payment in the amount of \$22,599, including interest at 4.9000% through September 2012. The lease is secured by the corresponding computers acquired.	21,544
Capital lease payable to Cisco Systems Capital Corp. in the original amount of \$23,210, requiring monthly payments in the amount of \$645, including interest at 0.0010% through June 2013. The lease is secured by the corresponding computer server.	<u>6,552</u>
Total	<u><u>\$ 1,047,794</u></u>

The future minimum lease payments under the capital leases and the net present value of future minimum lease payments as of August 31, 2012 are as follows:

Year ending August 31:	
2013	\$ 661,089
2014	142,399
2015	142,399
2016	142,399
2017	94,932
Thereafter	<u>-</u>
Total future minimum lease payments	1,183,218
Less amount representing interest	<u>(135,424)</u>
Present value of future minimum lease payments	1,047,794
Less current portion	<u>(596,568)</u>
Net long-term capital leases payable	<u><u>\$ 451,226</u></u>

Interest expense for the year ended August 31, 2012 totaled \$96,554.

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 12 – Long-Term Debt

Combined maturities for all long-term debt principal at August 31, 2012 are as follows:

	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Capital Leases Payable</u>	<u>Total Maturities</u>
Year ending August 31, 2012				
2013	\$ 1,955,000	\$ 4,000,000	\$ 596,568	\$ 6,551,568
2014	2,495,000	-	110,286	2,605,286
2015	2,605,000	-	119,440	2,724,440
2016	2,715,000	-	129,354	2,844,354
2017	2,835,000	-	92,146	2,927,146
Thereafter	<u>118,850,000</u>	<u>-</u>	<u>-</u>	<u>118,850,000</u>
	<u>\$ 131,455,000</u>	<u>\$ 4,000,000</u>	<u>\$ 1,047,794</u>	<u>\$ 136,502,794</u>

Note 13 – Deferred Revenues

Deferred revenues at August 31, 2012 consist of the following:

In-district charter contracted service revenue	\$ 1,026,800
Brown Foundation	500,000
Walton Foundation	596,304
Michael and Susan Dell Foundation	561,500
Kern Family Foundation	73,330
Communities Foundation of Texas	50,000
Greater Texas Foundation	56,802
New Schools Venture	25,000
Gen Youth Foundation	23,139
Laura and John Arnold Foundation	<u>1,406</u>
Total	<u>\$ 2,914,281</u>

Note 14 – Conditional Contributions Receivable

The School has conditional promises to give at August 31, 2012 as follows:

Ewing Halsell Foundation	\$ 9,000,000
George W. Brackenridge Foundation	900,000
Michael and Susan Dell Foundation	<u>500,000</u>
Total	<u>\$ 10,400,000</u>

IDEA Public Schools, Inc.

Notes to Financial Statements August 31, 2012

Note 14 – Conditional Contributions Receivable (continued)

The future payments under the conditional promises to give at August 31, 2012 are as follows:

Year ending August 31:	
2013	\$ 4,100,000
2014	1,600,000
2015	1,600,000
2016	1,800,000
2017	<u>1,300,000</u>
	\$ <u>10,400,000</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 August 31, 2012, the amount has not been included in these financial statements.

Note 15 – Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2012 consist of the following:

Child Nutrition Program	\$ 1,022,427
Summer Feeding Program	1,021
Instructional Materials Allotment	212,724
Foundation School Program	<u>29,612,572</u>
Total	\$ <u>30,848,744</u>

Note 16 – 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

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 16 – Pension Plan Obligations (continued)

Plan Description (continued)

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, 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.% 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 August 31, 2012, totaled \$3,128,646, equal to the required contributions for each year.

Note 17 – Operating Leases

Future minimum payments on long-term noncancellable operating leases are as follows for the year ended August 31, 2012:

Year ending August 31:	
2013	\$ 403,819
2014	298,417
2015	135,656
2016	84,000
2017 and thereafter	<u>495,000</u>
	<u>\$ 1,416,892</u>

Rent expense for the year ended August 31, 2012 totaled \$646,190.

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 18 – 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 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.

At August 31, 2012, the School had the following construction commitments:

	Contract Amount	Amount Expended	Remaining Commitment
Donna campus	\$ 7,223,225	\$ 424,253	\$ 6,798,972
Quest campus	275,775	223,508	52,267
Frontier campus	286,550	208,684	77,866
Mission campus	4,281,652	4,281,652	-
San Benito campus	4,349,416	4,349,416	-
San Juan campus	540,906	484,494	56,412
Alamo campus	9,749,931	4,747,455	5,002,476
Pharr campus	9,392,330	401,146	8,991,184
Edinburg campus	6,839,156	264,382	6,574,774
Weslaco campus	6,726,249	211,238	6,515,011
McAllen campus	17,854,196	6,159,164	11,695,032
Brownsville campus	16,743,349	6,313,444	10,429,905
Miscellaneous projects	382,662	382,662	-
	\$ 84,645,397	\$ 28,451,498	\$ 56,193,899

Note 19 – Health Insurance

During the year ended August 31, 2012, employees of the School were covered by a health insurance plan (the “Plan”). The School contributes \$297 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.

IDEA Public Schools, Inc.

Notes to Financial Statements

August 31, 2012

Note 20 – Subsequent Events

The Board of Directors approved a change in fiscal year from September 1 through August 31 to July 1 through June 30 effective July 1, 2013. The fiscal year change will align the fiscal year with the school year. This fiscal year change amendment request was approved by the TEA on June 29, 2012.

On September 6, 2012, the School issued \$59,730,000 of Education Revenue Bonds, Series 2012. The \$4,000,000 note payable to Regions Bank was paid off with proceeds from the bond issue. Proceeds of the bonds are for construction and future debt service. The Series 2012 bonds mature serially each August 15th, starting 2014 through 2042, with a stated interest rate ranging from 2.15% to 5.00%.

Note 21 – 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.

Note 22 – Restatement of Net Assets

During the year, the School discovered that interest was not capitalized on construction projects financed with debt, as required by accounting standards. The School made corrections for capitalized interest, which included a restatement to beginning net assets as follows.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets at beginning of year – as previously reported	\$ 656,008	\$ 18,551,095	\$ 19,207,103
Correction for capitalized interest – net	-	4,248,052	4,248,052
Net assets at end of year – as restated	<u>\$ 656,008</u>	<u>\$ 22,799,147</u>	<u>\$ 23,455,155</u>

Other Supplemental Information

IDEA Public Schools, Inc.

Exhibit B-1

Statement of Activities for Individual Charter School – IDEA Year Ended August 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Local support:			
5740 Other revenues from local sources	\$ 466,830	\$ 10,362,430	\$ 10,829,260
5750 Other revenues from other activities	<u>23,616</u>	<u>623,528</u>	<u>647,144</u>
Total local support	<u>490,446</u>	<u>10,985,958</u>	<u>11,476,404</u>
State program revenues:			
5810 Foundation School Program Act revenues	-	71,593,101	71,593,101
5820 State program revenues distributed by the Texas Education Agency	-	1,203,650	1,203,650
5830 State revenues – other agencies	<u>-</u>	<u>12,748</u>	<u>12,748</u>
Total state program revenues	<u>-</u>	<u>72,809,499</u>	<u>72,809,499</u>
Federal program revenues:			
5920 Federal revenues distributed by the Texas Education Agency	-	9,950,189	9,950,189
5940 Federal revenues distributed directly from the federal government	<u>-</u>	<u>7,092,187</u>	<u>7,092,187</u>
Total federal program revenues	<u>-</u>	<u>17,042,376</u>	<u>17,042,376</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>92,788,236</u>	<u>(92,788,236)</u>	<u>-</u>
Total revenues	<u>93,278,682</u>	<u>8,049,597</u>	<u>101,328,279</u>
Expenses			
11 Instruction	37,345,940	-	37,345,940
12 Instructional resources and media services	943,940	-	943,940
13 Curriculum and instructional staff development	319,439	-	319,439
21 Instructional leadership	5,054,678	-	5,054,678
23 School leadership	8,974,502	-	8,974,502
31 Guidance, counseling, and evaluation services	2,569,272	-	2,569,272
33 Health services	562,028	-	562,028
34 Student (pupil) transportation	3,740,385	-	3,740,385
35 Food services	5,307,462	-	5,307,462
36 Cocurricular/extracurricular activities	993,609	-	993,609
41 General administration	6,177,698	-	6,177,698
51 Plant maintenance and operations	10,176,454	-	10,176,454
52 Security and monitoring services	305,559	-	305,559
53 Data processing services	3,410,030	-	3,410,030
61 Community services	55,557	-	55,557
71 Debt service	6,446,639	-	6,446,639
81 Fundraising	<u>566,520</u>	<u>-</u>	<u>566,520</u>
Total expenses	<u>92,949,712</u>	<u>-</u>	<u>92,949,712</u>
Change in net assets	328,970	8,049,597	8,378,567
Net assets at beginning of year – as restated	<u>656,008</u>	<u>22,799,147</u>	<u>23,455,155</u>
Net assets at end of year	<u>\$ 984,978</u>	<u>\$ 30,848,744</u>	<u>\$ 31,833,722</u>

IDEA Public Schools, Inc.

Exhibit C-1

**Schedule of Expenses for Individual Charter School – IDEA
Year Ended August 31, 2012**

Expenses

6100	Payroll costs	\$ 52,774,729
6200	Professional and contracted services	9,197,400
6300	Supplies and materials	14,494,114
6400	Other operating costs	10,035,513
6500	Debt	6,446,639
8900	Losses	<u>1,317</u>
	Total expenses	<u>\$ 92,949,712</u>

IDEA Public Schools, Inc.

Exhibit D-1

Schedule of Capital Assets for Individual Charter School – IDEA

August 31, 2012

<u>Asset Classification</u>	<u>Ownership Interest</u>		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
Property and Equipment			
1510 Land and improvements	\$ -	\$ 12,851,068	\$ -
1520 Buildings and improvements	-	95,597,144	-
1531 Vehicles	-	3,453,167	-
1539 Furniture and equipment	-	1,624,665	-
Capital leases:			
1551 Buildings	-	978,060	-
1558 Vehicles	-	-	-
1559 Equipment	-	61,605	-
1580 Construction in progress	-	28,451,498	-
	<u>\$ -</u>	<u>\$ 143,017,207</u>	<u>\$ -</u>

IDEA Public Schools, Inc.

Exhibit E-1

Budgetary Comparison Schedule for Individual Charter School – IDEA Year Ended August 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 6,630,006	\$ 9,939,749	\$ 10,829,260	\$ 889,511
5750 Other revenues from other activities	<u>264,600</u>	<u>591,600</u>	<u>647,144</u>	<u>55,544</u>
Total local support	<u>6,894,606</u>	<u>10,531,349</u>	<u>11,476,404</u>	<u>945,055</u>
State program revenues:				
5810 Foundation School Program Act revenues	72,143,104	72,144,626	71,593,101	(551,525)
5820 State program revenues distributed by the Texas Education Agency	380,670	1,171,590	1,203,650	32,060
5830 State revenues – other agencies	<u>-</u>	<u>13,990</u>	<u>12,748</u>	<u>(1,242)</u>
Total state program revenues	<u>72,523,774</u>	<u>73,330,206</u>	<u>72,809,499</u>	<u>(520,707)</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	9,184,973	9,106,755	9,950,189	843,434
5940 Federal revenues distributed directly from the federal government	<u>4,513,863</u>	<u>6,844,246</u>	<u>7,092,187</u>	<u>247,941</u>
Total federal program revenues	<u>13,698,836</u>	<u>15,951,001</u>	<u>17,042,376</u>	<u>1,091,375</u>
Total revenues	<u>93,117,216</u>	<u>99,812,556</u>	<u>101,328,279</u>	<u>1,515,723</u>
Expenses				
11 Instruction	30,294,440	35,428,270	37,345,940	(1,917,670)
12 Instructional resources and media services	882,450	1,040,639	943,940	96,699
13 Curriculum and instructional staff development	1,914,663	342,522	319,439	23,083
21 Instructional leadership	4,474,307	4,902,151	5,054,678	(152,527)
23 School leadership	6,408,094	8,815,071	8,974,502	(159,431)
31 Guidance, counseling and evaluation services	2,264,917	2,353,172	2,569,272	(216,100)
33 Health services	502,706	586,602	562,028	24,574
34 Student (pupil) transportation	3,856,448	3,895,131	3,740,385	154,746
35 Food services	4,894,423	5,079,205	5,307,462	(228,257)
36 Cocurricular/extracurricular activities	1,092,469	940,810	993,609	(52,799)
41 General administration	4,873,989	5,646,858	6,177,698	(530,840)
51 Plant maintenance and operations	9,254,782	10,138,607	10,176,454	(37,847)
52 Security and monitoring services	62,267	283,101	305,559	(22,458)
53 Data processing services	5,826,065	3,713,791	3,410,030	303,761
61 Community services	62,475	51,476	55,557	(4,081)
71 Debt service	8,655,040	6,582,633	6,446,639	135,994
81 Fundraising	<u>255,641</u>	<u>518,175</u>	<u>566,520</u>	<u>(48,345)</u>
Total expenses	<u>85,575,176</u>	<u>90,318,214</u>	<u>92,949,712</u>	<u>(2,631,498)</u>
Change in net assets	7,542,040	9,494,342	8,378,567	(1,115,775)
Net assets at beginning of year – as restated	<u>23,455,155</u>	<u>23,455,155</u>	<u>23,455,155</u>	<u>-</u>
Net assets at end of year	<u>\$ 30,997,195</u>	<u>\$ 32,949,497</u>	<u>\$ 31,833,722</u>	<u>\$ (1,115,775)</u>

IDEA Public Schools, Inc.

Combining Statement of Financial Position

August 31, 2012

ASSETS

	IDEA Charter	AISD In-District Charter	Total
Current Assets			
Cash and cash equivalents	\$ 39,724,625	\$ 942,739	\$ 40,667,364
Due from government agencies	6,255,852	567,087	6,822,939
Other receivables	1,374,156	43,221	1,417,377
Investments	201,911	-	201,911
Inventories	68,491	-	68,491
Prepaid expenses	951,897	36,678	988,575
Other current assets	181,192	-	181,192
	<u>48,758,124</u>	<u>1,589,725</u>	<u>50,347,849</u>
Property and Equipment			
Land and improvements	12,851,068	-	12,851,068
Building and improvements	93,942,602	-	93,942,602
Leasehold improvements	2,632,602	-	2,632,602
Vehicles	3,453,167	19,977	3,473,144
Furniture and equipment	1,686,270	20,959	1,707,229
Construction in progress	28,451,498	-	28,451,498
	<u>143,017,207</u>	<u>40,936</u>	<u>143,058,143</u>
Less accumulated depreciation and amortization	<u>13,738,039</u>	<u>1,286</u>	<u>13,739,325</u>
	<u>129,279,168</u>	<u>39,650</u>	<u>129,318,818</u>
Other Assets			
Bond and other debt issuance costs – net	3,701,260	-	3,701,260
Other assets	762,194	-	762,194
	<u>4,463,454</u>	<u>-</u>	<u>4,463,454</u>
	<u>\$ 182,500,746</u>	<u>\$ 1,629,375</u>	<u>\$ 184,130,121</u>

IDEA Public Schools, Inc.

Combining Statement of Financial Position

August 31, 2012

(Continued)

LIABILITIES AND NET ASSETS

Current Liabilities	IDEA Charter	AISD In-District Charter	Total
Accounts payable	\$ 5,988,029	\$ 460,685	\$ 6,448,714
Accrued wages payable	2,767,569	76,125	2,843,694
Accrued payroll expenses	660,897	-	660,897
Accrued interest payable	663,337	-	663,337
Accrued expenses	2,805,999	13,202	2,819,201
Deferred revenues	1,887,481	1,026,800	2,914,281
Other liabilities	71,744	-	71,744
Bonds payable – current portion	1,955,000	-	1,955,000
Note payable – current portion	4,000,000	-	4,000,000
Capital leases payable – current portion	596,568	-	596,568
	<u>21,396,624</u>	<u>1,576,812</u>	<u>22,973,436</u>
Total current liabilities			
Long-Term Liabilities			
Bonds payable	129,500,000	-	129,500,000
Premium on issuance of bonds – net of amortization	(680,827)	-	(680,827)
Capital leases payable	451,226	-	451,226
	<u>129,270,399</u>	<u>-</u>	<u>129,270,399</u>
Total long-term liabilities			
Total liabilities	<u>150,667,023</u>	<u>1,576,812</u>	<u>152,243,835</u>
Net Assets			
Unrestricted	984,979	52,563	1,037,542
Temporarily restricted	30,848,744	-	30,848,744
	<u>31,833,723</u>	<u>52,563</u>	<u>31,886,286</u>
Total net assets			
Total liabilities and net assets	<u>\$ 182,500,746</u>	<u>\$ 1,629,375</u>	<u>\$ 184,130,121</u>

IDEA Public Schools, Inc.

Combining Statement of Activities and Changes in Net Assets Year Ended August 31, 2012

	<u>IDEA Charter</u>	<u>AISD In-District Charter</u>	<u>Total</u>
Revenues and Other Support			
Local support:			
Contributions	\$ 4,093,870	\$ -	\$ 4,093,870
Grants	3,463,176	-	3,463,176
Food service	646,905	-	646,905
Other revenues	<u>3,272,453</u>	<u>129,975</u>	<u>3,402,428</u>
Total local support	<u>11,476,404</u>	<u>129,975</u>	<u>11,606,379</u>
State program revenues:			
Foundation School Program	71,593,101	-	71,593,101
Other state aid	<u>1,216,398</u>	<u>-</u>	<u>1,216,398</u>
Total state program revenues	<u>72,809,499</u>	<u>-</u>	<u>72,809,499</u>
Federal program revenues:			
ESEA Title I – Education Jobs Fund	31,200	-	31,200
ESEA Title I – Part A	2,698,414	-	2,698,414
ESEA Title II – Part A Teacher/Principal Training	493,189	-	493,189
ESEA Title III – Part A Language Acquisition	182,798	-	182,798
ESEA Title VI – Part A Summer School LEP	14,428	-	14,428
ESEA Title V – Part B Charter Schools	5,729,370	1,035,596	6,764,966
IDEA B Formula – Special Education	969,334	-	969,334
IDEA B Preschool – Special Education	5,011	-	5,011
ARRA ESEA Title I – Part A	61,901	-	61,901
ARRA ESEA Title XIV – State Fiscal Stabilization	127,171	-	127,171
ARRA ESEA Title XIV – Investing in Innovation	1,317,871	-	1,317,871
HEA Title IV – Part A GEAR-UP – Connect2College	44,946	-	44,946
Child Nutrition	<u>5,366,743</u>	<u>-</u>	<u>5,366,743</u>
Total federal program revenues	<u>17,042,376</u>	<u>1,035,596</u>	<u>18,077,972</u>
Total revenues and other support	<u>101,328,279</u>	<u>1,165,571</u>	<u>102,493,850</u>

IDEA Public Schools, Inc.

Combining Statement of Activities and Changes in Net Assets
Year Ended August 31, 2012
(Continued)

	<u>IDEA Charter</u>	<u>AISD In-District Charter</u>	<u>Total</u>
Expenses			
Program services:			
Instructional and instructional related services	\$ 38,609,319	\$ 456,572	\$ 39,065,891
Instructional and school leadership	<u>14,029,180</u>	<u>453,700</u>	<u>14,482,880</u>
Total program services	<u>52,638,499</u>	<u>910,272</u>	<u>53,548,771</u>
Support services:			
Administrative support services	6,177,698	108,032	6,285,730
Ancillary services	55,557	-	55,557
Support services – nonstudent based	13,892,042	82,582	13,974,624
Support services – student (pupil)	13,172,757	10,515	13,183,272
Debt service	6,446,639	-	6,446,639
Fundraising	<u>566,520</u>	<u>1,606</u>	<u>568,126</u>
Total support services	<u>40,311,213</u>	<u>202,735</u>	<u>40,513,948</u>
Total expenses	<u>92,949,712</u>	<u>1,113,007</u>	<u>94,062,719</u>
Change in net assets	8,378,567	52,564	8,431,131
Net assets at beginning of year – as restated	<u>23,455,155</u>	<u>-</u>	<u>23,455,155</u>
Net assets at end of year	<u>\$ 31,833,722</u>	<u>\$ 52,564</u>	<u>\$ 31,886,286</u>

IDEA Public Schools, Inc.

Combining Statement of Cash Flows Year Ended August 31, 2012

	IDEA Charter	AISSD In-District Charter	Total
Cash Flows From Operating Activities			
Change in net assets	\$ 8,378,567	\$ 52,564	\$ 8,431,131
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	4,459,585	1,286	4,460,871
Interest income	(294)	-	(294)
Loss on disposal of personal property	1,317	-	1,317
Changes in current assets and liabilities:			
Due from government agencies	(569,938)	(567,087)	(1,137,025)
Other receivables	(519,453)	(43,221)	(562,674)
Inventories	339,014	-	339,014
Prepaid expenses	323,763	(36,678)	287,085
Other assets	(120,912)	-	(120,912)
Accounts payable	(518,842)	460,685	(58,157)
Accrued wages payable	765,175	76,125	841,300
Accrued payroll expenses	171,034	-	171,034
Accrued interest payable	86,792	-	86,792
Accrued expenses	1,054,087	13,202	1,067,289
Deferred revenues	638,398	1,026,800	1,665,198
Other liabilities	27,145	-	27,145
	14,515,438	983,676	15,499,114
Net cash provided by operating activities			
Cash Flows Used In Investing Activities			
Purchase of certificate of deposit	(201,726)	-	(201,726)
Proceeds from redemption of certificate of deposit	131,081	-	131,081
Construction and purchase of property and equipment	(35,512,627)	(40,936)	(35,553,563)
Proceeds from disposal of property and equipment	12,199	-	12,199
Investment in notes receivable from graduates	(60,886)	-	(60,886)
Repayment of notes receivable from graduates	525	-	525
	(35,631,434)	(40,936)	(35,672,370)
Net cash used in investing activities			
Cash Flows From Financing Activities			
Proceeds from borrowings of long-term debt	28,965,864	-	28,965,864
Principal payments on long-term debt	(6,430,070)	-	(6,430,070)
	22,535,794	-	22,535,794
Net cash provided by financing activities			
	1,419,798	942,740	2,362,538
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year	38,304,826	-	38,304,826
Cash and cash equivalents at end of year	\$ 39,724,624	\$ 942,740	\$ 40,667,364
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest	\$ 7,462,408	\$ -	\$ 7,462,408

Compliance Section

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Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards*

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

We have audited the statement of financial position of IDEA Public Schools, Inc. (the "School") as of August 31, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated October 23, 2012. 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.

Internal Control Over Financial Reporting

Management of the School is responsible for establishing and monitoring effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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*.

We noted certain matters that we reported to management of the School in a separate letter dated October 23, 2012.

This report is intended solely for the information and use of management, the Board of Directors, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

Certified Public Accountants
October 23, 2012

Independent Auditors' 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

Compliance

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 year ended August 31, 2012. The School's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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. 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. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended August 31, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01.

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Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The School's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Padgett, Stratmann & Co., L.L.P.

Certified Public Accountants
October 23, 2012

IDEA Public Schools, Inc.

**Exhibit F-1
Schedule of Findings and Questioned Costs
Year Ended August 31, 2012**

I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Type of auditors’ report issued on compliance for major programs:	<u>Unqualified</u>	
Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	<u> X </u> None Reported
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	<u> X </u> Yes	_____ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
10.553/10.555 84.411A	National School Breakfast/Lunch Program Cluster ARRA ESEA Title XIV – Investing in Innovation

Dollar threshold used to distinguish between type A and type B programs:	<u>\$542,339</u>	
Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No

IDEA Public Schools, Inc.

Exhibit F-1 Schedule of Findings and Questioned Costs Year Ended August 31, 2012 (Continued)

II – Financial Statement Finding

None noted.

III – Federal Awards Findings and Questioned Costs

Finding 2012-01: Allowable Costs/Cost Principles

Federal Program: National School Breakfast Program and National School Lunch Program Cluster

CFDA Numbers: 10.553 and 10.555

Pass-Through Entity Identifying Numbers: 71401201/71301201

United States Department of Agriculture

Passed Through the TEA

Type of Finding: Noncompliance

Criteria: In accordance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Paragraph 8m, *Support of Salaries and Wages*, the distribution of salaries and wages must be supported by personnel activity reports and 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 school lunch program, we noted personnel activity reports were not prepared for the first part of the fiscal year. Management identified this and subsequently went back and obtained personnel activity reports for this period of time.

Questioned Costs: None

Possible Asserted Effect: Charges for salaries and wages are not supported in accordance with OMB Circular A-122 for the first part of the fiscal year.

Recommendation: We recommend management continue to obtain personnel activity reports and time sheets for all employees charged to the school lunch program 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 will continue to document salaries and wages 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
Year Ended August 31, 2012

2012-01: Noncompliance Related to National School Breakfast Program and National School Lunch Program Cluster

Management Response: The School has implemented procedures to ensure salaries and wages are supported in accordance with OMB Circular A-122.

IDEA Public Schools, Inc.

Summary Schedule of Prior Audit Findings
Year Ended August 31, 2012

All prior year comments were satisfactorily resolved.

IDEA Public Schools, Inc.

**Exhibit H-1
Schedule of Expenditures of Federal Awards
Year Ended August 31, 2012**

<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	\$ 6,764,966
ARRA ESEA Title XIV – Investing in Innovation	84.411A	U396C100748	1,317,871
HEA Title IV – Part A GEAR-UP – Connect2College	84.334A	P334A120084	<u>44,946</u>
Total Direct Program			<u>8,127,783</u>
Passed Through State Department of Education:			
ESEA Title I – Part A	84.010A	12610101108807	2,612,363
ESEA Title I – Part A	84.010A	13610101108807	86,051
ESEA Title I – Education Jobs Fund	84.410A	11550101108807	31,200
ESEA Title II – Part A Teacher/Principal Training	84.367A	12694501108807	474,579
ESEA Title II – Part A Teacher/Principal Training	84.367A	13694501108807	18,610
ESEA Title III – Part A Language Acquisition	84.365A	12671001108807	182,798
ESEA Title VI – Part A Summer School LEP	84.369A	69550902	14,428
IDEA B Formula – Special Education	84.027A	126600011088076600	928,656
IDEA B Formula – Special Education	84.027A	136600011088076600	40,678
IDEA B Preschool – Special Education	84.173A	126610011088076610	5,011
ARRA ESEA Title I – Part A	84.389A	11551001108807	61,901
ARRA ESEA Title XIV – State Fiscal Stabilization	84.394A	11557001108807	<u>127,171</u>
Total Passed Through State Department of Education			<u>4,583,446</u>
Total United States Department of Education			<u>12,711,229</u>
<u>United States Department of Agriculture:</u>			
Passed Through State Department of Education:			
National School Breakfast Program	10.553	71401201	1,809,993
National School Lunch Program	10.555	71301201	3,332,027
USDA Commodities	10.555	71301201	<u>224,723</u>
Total Passed Through State Department of Education			<u>5,366,743</u>
Total United States Department of Agriculture			<u>5,366,743</u>
Total Expenditures of Federal Awards			\$ <u><u>18,077,972</u></u>

IDEA Public Schools, Inc.

**Note to Schedule of Expenditures of Federal Awards
Year Ended August 31, 2012**

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 year ended August 31, 2012. 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 assets 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	\$ 581,861