

**IDEA Public Schools, Inc.**

Financial and Compliance Report

June 30, 2014

**IDEA Public Schools, Inc.**  
Financial and Compliance Report  
Year Ended June 30, 2014

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**IDEA Public Schools, Inc.**  
Financial and Compliance Report  
Year Ended June 30, 2014

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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

Edna de Saro, Member

Bert Garcia, 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**

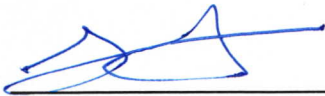
Wyatt J. Truscheit

**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 June 30, 2014, at a meeting of the governing body of the charter holder on the 18<sup>th</sup> day of September, 2014.



Signature of Board Secretary



Signature of Board President

If the governing body of the charter holder disapproved the independent auditor's 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, 2014, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### ***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.

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

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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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 27, 2014 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, Statemann + Co., L.L.P.*

San Antonio, Texas  
August 27, 2014

## Financial Statements



# IDEA Public Schools, Inc.

## Exhibit A-1 Statement of Financial Position June 30, 2014

### Assets

#### Current Assets

Cash and cash equivalents	\$ 44,642,580
Cash and cash equivalents – restricted	17,147,130
Due from government agencies	24,947,294
Other receivables	1,999,411
Inventories	70,547
Prepaid expenses	248,590
Other current assets	<u>401,212</u>
Total current assets	<u>89,456,764</u>

#### Property and Equipment

Land and improvements	22,119,263
Buildings and improvements	177,813,255
Leasehold improvements	2,645,291
Vehicles	5,602,030
Furniture and equipment	3,720,694
Construction in progress	<u>25,001,152</u>
Total property and equipment	236,901,685
Less accumulated depreciation and amortization	<u>24,676,471</u>
Net property and equipment	<u>212,225,214</u>

#### Other Assets

Cash and cash equivalents – noncurrent – restricted	48,562,164
Bond and other debt issuance costs – net	6,204,200
Notes receivable – net	<u>-</u>
Total other assets	<u>54,766,364</u>
Total assets	<u>\$ 356,448,342</u>

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

**IDEA Public Schools, Inc.**

Exhibit A-1  
Statement of Financial Position  
June 30, 2014  
(Continued)

**Liabilities and Net Assets**

**Current Liabilities**

Accounts payable	\$ 8,105,020
Accrued wages payable	8,569,080
Accrued payroll expenses	1,381,101
Accrued interest payable	5,881,762
Accrued expenses	6,451,358
Deferred revenues	3,542,777
Other liabilities	116,357
Notes payable – current portion	3,947,114
Bonds payable – current portion	3,595,000
Capital leases payable – current portion	299,377
	<hr/>
Total current liabilities	41,888,946

**Long-Term Liabilities**

Bonds payable	248,660,000
Premium on issuance of bonds – net of amortization	2,190,422
Notes payable	1,000,000
Capital leases payable	616,560
	<hr/>
Total long-term liabilities	252,466,982
	<hr/>
Total liabilities	294,355,928

**Net Assets**

Unrestricted	1,530,365
Temporarily restricted	60,562,049
	<hr/>
Total net assets	62,092,414
	<hr/>
Total liabilities and net assets	\$ 356,448,342

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

**IDEA Public Schools, Inc.**

Exhibit A-2  
Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Local support:			
Contributions	\$ 530,990	\$ 756,475	\$ 1,287,465
Grants	-	5,241,406	5,241,406
Food service	58,384	755,501	813,885
Other revenues	<u>7,373</u>	<u>4,334,967</u>	<u>4,342,340</u>
Total local support	<u>596,747</u>	<u>11,088,349</u>	<u>11,685,096</u>
State program revenues:			
Foundation School Program	-	127,250,372	127,250,372
Other state aid	<u>-</u>	<u>1,439,673</u>	<u>1,439,673</u>
Total state program revenues	<u>-</u>	<u>128,690,045</u>	<u>128,690,045</u>
Federal program revenues:			
ESEA Title I – Part A	-	4,589,723	4,589,723
ESEA Title I – Part A – Priority and Focus School	-	36,700	36,700
ESEA Title I – Part G – Advanced Placement Program	-	46,740	46,740
ESEA Title II – Part A Teacher/Principal Training	-	1,103,225	1,103,225
ESEA Title III – Part A Language Acquisition	-	282,292	282,292
ESEA Title III – Part A Immigrant	-	32,230	32,230
IDEA B Formula – Special Education	-	1,248,270	1,248,270
IDEA – Part B Special Education Preschool Grants	-	6,156	6,156
ESEA Title V – Part B Charter Schools	-	3,106,493	3,106,493
ARRA ESEA Title XIV – Investing in Innovation	-	1,416,666	1,416,666
HEA Title IV – Part A GEAR-UP – Connect2College	-	1,628,224	1,628,224
ARRA ESEA Race To The Top – District Grants	-	6,300,074	6,300,074
ESEA Title V – Part D Fund for the Improvement of Education	-	100,226	100,226
Farm to School Grant Program	-	10,592	10,592
Child Nutrition	-	9,911,249	9,911,249
SSA, Title XIX – School Health and Related Services	<u>-</u>	<u>456,699</u>	<u>456,699</u>
Total federal program revenues	<u>-</u>	<u>30,275,559</u>	<u>30,275,559</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>155,940,450</u>	<u>(155,940,450)</u>	<u>-</u>
Total revenues and other support	<u>156,537,197</u>	<u>14,113,503</u>	<u>170,650,700</u>

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

**IDEA Public Schools, Inc.**

Exhibit A-2  
**Statement of Activities and Changes in Net Assets**  
 Year Ended June 30, 2014  
 (Continued)

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Expenses</b>			
Program services:			
Instructional and instructional related services	\$ 65,900,278	\$ -	\$ 65,900,278
Instructional and school leadership	21,369,986	-	21,369,986
Total program services	87,270,264	-	87,270,264
Support services:			
Administrative support services	10,424,033	-	10,424,033
Ancillary services	188,074	-	188,074
Support services – nonstudent based	21,128,476	-	21,128,476
Support services – student (pupil)	24,986,624	-	24,986,624
Debt service	11,305,195	-	11,305,195
Fundraising	732,636	-	732,636
Total support services	68,765,038	-	68,765,038
Total expenses	156,035,302	-	156,035,302
Loss on disposal of assets	(577,496)	-	(577,496)
Gain on disposal of assets	5,547	-	5,547
Change in net assets	(70,054)	14,113,503	14,043,449
Net assets at beginning of year	1,600,419	46,448,546	48,048,965
Net assets at end of year	\$ 1,530,365	\$ 60,562,049	\$ 62,092,414

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

# IDEA Public Schools, Inc.

## Exhibit A-3 Statement of Cash Flows Year Ended June 30, 2014

<b>Cash Flows From Operating Activities</b>	
Change in net assets	\$ 14,043,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	8,027,470
Allowance for doubtful accounts	232,600
Loss on disposal of assets	577,496
Gain on disposal of assets	(5,547)
Changes in current assets and liabilities:	
Due from government agencies	(8,044,380)
Other receivables	(692,208)
Inventories	(29,698)
Prepaid expenses	203,893
Other current assets	349,950
Accounts payable	744,949
Accrued wages payable	2,673,549
Accrued payroll expenses	1,061,419
Accrued interest payable	1,480,760
Accrued expenses	1,731,657
Deferred revenues	217,306
Other liabilities	<u>(180,253)</u>
Net cash provided by operating activities	<u>22,392,412</u>
<b>Cash Flows Used In Investing Activities</b>	
Construction and purchase of property and equipment	(45,397,387)
Proceeds from disposal of property and equipment	92,773
Investment in notes receivable from graduates	<u>(51,824)</u>
Net cash used in investing activities	<u>(45,356,438)</u>
<b>Cash Flows From Financing Activities</b>	
Proceeds from borrowings of long-term debt	74,381,090
Principal payments on long-term debt	<u>(14,793,210)</u>
Net cash provided by financing activities	<u>59,587,880</u>
Net increase in cash and cash equivalents	36,623,854
Cash and cash equivalents at beginning of year	<u>73,728,020</u>
Cash and cash equivalents at end of year	\$ <u><u>110,351,874</u></u>
Cash and cash equivalents	\$ 44,642,580
Cash and cash equivalents – restricted	17,147,129
Cash and cash equivalents – noncurrent – restricted	<u>48,562,165</u>
Total cash and cash equivalents	\$ <u><u>110,351,874</u></u>
<b>Supplemental Disclosure of Cash Flow Information</b>	
Cash paid for interest	\$ <u><u>11,799,885</u></u>

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

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### **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 was the operation of an in-district charter school in the Austin Independent School District, which terminated on June 30, 2013. 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 June 30, 2014, 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 the Financial Statements

June 30, 2014

### **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, 2014, 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 and debt service requirements for bonds.

#### *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.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

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

#### ***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).

#### ***Notes Receivable***

Notes receivable represents loans to graduates of the School that are enrolled in college. The loans are interest free with principal due six months after graduation from college or immediately upon withdrawal from college. Outstanding notes receivable at June 30, 2014 totaled \$232,601. 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 notes receivable to be fully uncollectible; accordingly, an allowance for doubtful accounts of \$232,601 at June 30, 2014 is recorded in these financial statements.

#### ***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. 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.



# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

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

Depreciation and amortization are calculated on the straight-line method based on the following estimated useful lives of the respective assets.

<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 year ended June 30, 2014.

### ***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.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

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

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 that 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 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, 2010.

#### ***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 year ended June 30, 2014 totaled \$845,931.

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

The School has evaluated subsequent events that occurred after June 30, 2014 through the date of this report on August 27, 2014. Any material subsequent events that occurred during this time have been properly recognized or disclosed in the financial statements.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### 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, 2014, the School had no investments.

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, 2014 consisted of the following:

Petty cash	\$	207
Checking accounts		44,631,139
Money market accounts		<u>65,720,528</u>
	\$	<u>110,351,874</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### Note 3 – Cash and Cash Equivalents (continued)

Cash and cash equivalents were temporarily restricted as follows:

Construction	\$ 38,355,221
Debt service requirements for bonds	<u>27,354,073</u>
	65,709,294
Less current cash and cash equivalents – restricted	<u>17,147,130</u>
Cash and cash equivalents – noncurrent – restricted	<u><u>\$ 48,562,164</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, 2014 of \$48,470,865 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, 2014, 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.

### Note 5 – Due From Government Agencies

Amounts due from government agencies at June 30, 2014 consist of the following:

Texas Department of Education, Texas Education Agency (“TEA”)	\$ 21,393,093
United States Department of Education	3,185,688
United States Department of Education passed through TEA	213,609
United States Department of Agriculture passed through TEA	<u>154,904</u>
	<u><u>\$ 24,947,294</u></u>

**IDEA Public Schools, Inc.**

Notes to the Financial Statements

June 30, 2014

**Note 6 – Property and Equipment**

Property and equipment at June 30, 2014 consist of the following:

	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Deductions and Transfers</u>	<u>Balance at June 30, 2014</u>
Land and improvements	\$ 14,719,624	\$ 7,596,086	\$ (196,447)	\$ 22,119,263
Buildings and improvements	120,312,053	222,182	57,279,020	177,813,255
Leasehold improvements	2,645,291	-	-	2,645,291
Vehicles	3,717,893	1,923,975	(39,838)	5,602,030
Furniture and equipment	1,955,162	772,686	992,846	3,720,694
Construction in progress	<u>50,252,413</u>	<u>35,175,659</u>	<u>(60,426,920)</u>	<u>25,001,152</u>
	193,602,436	45,690,588	(2,391,339)	236,901,685
Less accumulated depreciation and amortization	<u>18,328,219</u>	<u>7,781,669</u>	<u>(1,433,417)</u>	<u>24,676,471</u>
	<u>\$ 175,274,217</u>	<u>\$ 37,908,919</u>	<u>\$ (957,922)</u>	<u>\$ 212,225,214</u>

Depreciation and amortization expense for the year ended June 30, 2014 totaled \$7,781,669.

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 the Financial Statements

June 30, 2014

### 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, 2014 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	\$ (298,825)	\$ 1,013,092	\$ 43,731
Series 2009 bond issuance	1,064,702	(162,982)	901,720	35,890
Series 2010 bond issuance	975,901	(116,405)	859,496	32,896
Series 2011 bond issuance	739,210	(64,090)	675,120	24,847
Series 2012 bond issuance	1,420,040	(87,454)	1,332,586	47,732
Series 2013 bond issuance	1,440,477	(35,972)	1,404,505	35,972
2012 Regions debt issuance title fees	85,146	(78,050)	7,096	42,573
2012 Regions debt issuance origination fees	<u>111,350</u>	<u>(100,765)</u>	<u>10,585</u>	<u>55,675</u>
	<u>\$ 7,148,743</u>	<u>\$ (944,543)</u>	<u>\$ 6,204,200</u>	<u>\$ 319,316</u>

### Note 8 – Bonds Payable

Changes in bonds payable at June 30, 2014 are as follows:

	<u>Balance at June 30, 2013</u>	<u>Retirements</u>	<u>Additions</u>	<u>Balance at June 30, 2014</u>
Series 2007 A bonds	\$ 34,360,000	\$ (755,000)	\$ -	\$ 33,605,000
Series 2009 A and B bonds	29,160,000	(495,000)	-	28,665,000
Series 2010 A and B bonds	33,900,000	(705,000)	-	33,195,000
Series 2010 Q bonds	7,555,000	-	-	7,555,000
Series 2011	26,480,000	-	-	26,480,000
Series 2012	59,730,000	-	-	59,730,000
Series 2013	<u>-</u>	<u>-</u>	<u>63,025,000</u>	<u>63,025,000</u>
	191,185,000	\$ <u>(1,955,000)</u>	\$ <u>63,025,000</u>	252,255,000
Less current portion	<u>1,955,000</u>			<u>3,595,000</u>
Net long-term bonds payable	<u>\$ 189,230,000</u>			<u>\$ 248,660,000</u>

Interest expense for the year ended June 30, 2014 totaled \$13,107,720, of which \$2,233,315 was capitalized.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

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

The Series 2010 Q Bonds tax credit interest subsidy for the year ended June 30, 2014 totaled \$381,795 and is reflected in Local Support, Other Revenues in the Statement of Activities and Changes in Net Assets.

#### ***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 year ended June 30, 2014, 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 year ended June 30, 2014, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### **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 8.25%. 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 June 30, 2014, 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 year ended June 30, 2014, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.



# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### **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 year ended June 30, 2014, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

#### ***Series 2013 Bonds***

On October 16, 2013, the School issued \$63,025,000 of Education Revenue Bonds, Series 2013. Proceeds of the bonds were for construction, future debt service, and repayment of the multiple draw term notes payable to Regions Bank. The Series 2012 bonds mature serially each August 15<sup>th</sup>, starting 2015 through 2043, with a stated interest rate ranging from 5% to 6%.

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 2013 bonds. The Series 2013 bonds are subject to optional redemption in whole or in part on August 15, 2023.

Section 5.8 of the Series 2013 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 June 30, 2014 the School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### Note 8 – Bonds Payable (continued)

Debt service requirements for bonds payable for the year ended June 30, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Tax Credit Subsidy</u>	<u>Totals</u>
Year ending June 30:				
2015	\$ 3,595,000	\$ 13,966,899	\$ (414,769)	\$ 17,147,130
2016	4,625,000	13,811,227	(414,769)	18,021,458
2017	4,810,000	13,622,430	(414,769)	18,017,661
2018	5,005,000	13,411,550	(414,769)	18,001,781
2019	5,225,000	13,176,156	(414,769)	17,986,387
Thereafter	<u>228,995,000</u>	<u>181,665,560</u>	<u>(3,434,956)</u>	<u>407,225,604</u>
	<u>\$ 252,255,000</u>	<u>\$ 249,653,822</u>	<u>\$ (5,508,801)</u>	<u>\$ 496,400,021</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### Note 9 – Notes Payable

Notes payable at June 30, 2014 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, 2014.	\$ 3,947,114
A term note payable to Charter Fund, Inc. in the original amount of \$400,000; maturing June 30, 2018; with a \$400,000 balloon payment at the end of the term, including interest at 1.00% through June 30, 2018. This note is unsecured and subordinate to all other debt obligations of the School.	400,000
A term note payable to Charter Fund, Inc. in the original amount of \$500,000; maturing June 30, 2019; with a \$500,000 balloon payment at the end of the term, including interest at 1.00% through June 30, 2019. This note is unsecured and subordinate to all other debt obligations of the School.	500,000
A term note payable to Charter Fund, Inc. in the original amount of \$100,000; maturing June 30, 2019; with a \$100,000 balloon payment at the end of the term, including interest at 1.00% through June 30, 2019. This note is unsecured and subordinate to all other debt obligations of the School.	<u>100,000</u>
	4,947,114
Less current portion	<u>3,947,114</u>
Net long-term notes payable	<u>\$ 1,000,000</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements June 30, 2014

### Note 9 – Notes Payable (continued)

The future minimum payments for notes payable as of June 30, 2014 are as follows:

Year ending June 30:	
2015	\$ 3,947,114
2016	-
2017	-
2018	400,000
2019	600,000
Thereafter	-
	<hr/>
Total future minimum note payments	\$ <u>4,947,114</u>

Interest expense for the year ended June 30, 2014 totaled \$138,897, of which \$29,345 was capitalized.

### Note 10 – Capital Leases Payable

Capital leases payable at June 30, 2014 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 8.00% through April 2017; secured by the by the corresponding building acquired. \$ 359,937

#### Buses

Capital lease payable to Regions Commercial Equipment LLC in the original amount of \$270,000, requiring monthly payments in the amount of \$7,742, including interest at 2.07% through July 2017; secured by the corresponding buses acquired. 270,000

Capital lease payable to Regions Commercial Equipment LLC in the original amount of \$286,000, requiring monthly payments in the amount of \$8,200, including interest at 2.07% through July 2017; secured by the corresponding buses acquired. 286,000

\$ 915,937

**IDEA Public Schools, Inc.**

Notes to the Financial Statements

June 30, 2014

**Note 10 – Capital Leases Payable (continued)**

The future minimum lease payments under the capital leases and the net present value of future minimum lease payments as of June 30, 2014 are as follows:

Year ending June 30:		
2015	\$	334,166
2016		333,706
2017		309,974
2018		-
2019		-
Thereafter		<u>-</u>
		977,846
Total future minimum lease payments		977,846
Less amount representing interest		<u>61,909</u>
		915,937
Present value of future minimum lease payments		915,937
Less current portion		<u>299,377</u>
		\$ <u>616,560</u>

Interest expense for the year ended June 30, 2014 totaled \$34,029.

**Note 11 – Long-Term Debt**

Combined maturities for all long-term debt principal at June 30, 2014 are as follows:

	<b>Bonds Payable</b>	<b>Notes Payable</b>	<b>Capital Leases Payable</b>	<b>Total Maturities</b>
Year ending June 30:				
2015	\$ 3,595,000	\$ 3,947,114	\$ 299,377	\$ 7,841,491
2016	4,625,000	-	312,953	4,937,953
2017	4,810,000	-	303,607	5,113,607
2018	5,005,000	400,000	-	5,405,000
2019	5,225,000	600,000	-	5,825,000
Thereafter	<u>228,995,000</u>	<u>-</u>	<u>-</u>	<u>228,995,000</u>
	<u>\$ 252,255,000</u>	<u>\$ 4,947,114</u>	<u>\$ 915,937</u>	<u>\$ 258,118,051</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### Note 12 – Deferred Revenues

Deferred revenues at June 30, 2014 consist of the following:

Carnegie Foundation	\$ 99,403
Communities Foundation of Texas	58,132
Kern Family Foundation	37,096
Harvey Najim Foundation	314,273
George W. Brakenridge Foundation	100,000
Ewing Halsell Foundation	685,824
H-E-B Healthy Campus	5,001
Charter School Growth Fund	1,421,585
Brown Foundation	500,000
Walton Foundation	100,000
Instructional Materials Allotment	<u>221,463</u>
	<u>\$ 3,542,777</u>

### Note 13 – Conditional Contributions

The School has conditional promises to give from philanthropic organizations at June 30, 2014 as follows:

Harvey Najim Foundation	\$ 400,000
George W. Brakenridge Foundation	700,000
Ewing Halsell Foundation	5,500,000
H-E-B Healthy Campus Grant	5,000
Anonymous Grant	100,000
Charter School Growth Fund	2,000,000
Karen & Tom Hixon Foundation	<u>400,000</u>
	<u>\$ 9,105,000</u>

The future payments under the conditional promises to give from philanthropic organizations at June 30, 2014 are as follows:

Year ending June 30:	
2015	\$ 4,105,000
2016	2,100,000
2017	1,900,000
2018	<u>1,000,000</u>
	<u>\$ 9,105,000</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### Note 13 – Conditional Contributions (continued)

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, 2014, the amount has not been included in these financial statements.

### Note 14 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 consist of the following:

Child Nutrition Program	\$ 2,737,985
Summer Feeding Program	1,021
Race to the Top	531,508
Foundation School Program	56,432,831
Fresh Fruit & Vegetable Program	2,658
Campus Activity Funds	<u>856,046</u>
	\$ <u>60,562,049</u>

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

Philanthropic Grants	\$ 5,241,407
Campus Activity Funds	2,038,321
Foundation School Program	117,822,723
Instructional Materials Allotment	1,217,275
Other State Programs	430,112
Federal Programs	19,329,363
Child Nutrition Program	<u>9,861,249</u>
	\$ <u>155,940,450</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### **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.

#### ***Plan Description***

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, 2014, totaled \$4,905,439, equal to the required contributions for each year.



# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2014

### Note 16 – Operating Leases

Future minimum payments on long-term noncancellable operating leases are as follows for the year ended June 30, 2014:

Year ending June 30:	
2015	\$ 1,351,959
2016	568,671
2017	162,253
2018	84,716
2019	86,400
Thereafter	<u>338,400</u>
	<u>\$ 2,592,399</u>

Rent expense for the year ended June 30, 2014 totaled \$1,586,702.

### Note 17 – Loss on Disposal of Assets and Contribution Revenue

During the fiscal year ended June 30, 2014, the School forfeited to the original donor 20.2 acres of land in Brownsville, Texas with a book value of \$570,536, which is recorded as a loss on disposal of assets in the statement of activities and changes in net assets. In exchange for the forfeited land, the same donor donated a separate 20.3 acres of land in Brownsville, Texas with an appraised value of \$406,000, which is recorded as contribution revenue in the statement of activities and changes in net assets.

### 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 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 June 20, 2014, the Board of Directors authorized the issuance of approximately \$67,500,000 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 the Financial Statements

June 30, 2014

#### Note 18 – Commitments and Contingencies (continued)

At June 30, 2014, the School had the following construction commitments:

	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Remaining Commitment</u>
Allan Campus	\$ 12,600,000	\$ 5,583,818	\$ 7,016,182
Rundberg Campus	13,502,871	24,385	13,478,486
Brownsville III Campus	10,752,440	96,732	10,655,708
Mission II Campus	11,685,085	18,203	11,666,882
Rio Grande City Campus	13,126,122	44,446	13,081,676
Carver Campus	12,300,000	855,289	11,444,711
Monterrey Park Campus	10,300,000	8,608,145	1,691,855
San Antonio IV Campus	11,779,550	341,613	11,437,937
South Flores Campus	4,412,032	173,749	4,238,283
Walzem Campus	11,879,550	1,051,053	10,828,497
San Juan Campus	300,000	15,265	284,735
Weslaco Pike Campus	10,700,000	7,700,926	2,999,074
Headquarters	15,000,000	248,222	14,751,778
Miscellaneous projects	<u>239,305</u>	<u>239,305</u>	<u>-</u>
	<u>\$ 138,576,955</u>	<u>\$ 25,001,151</u>	<u>\$ 113,575,804</u>

#### Note 19 – Health Insurance

During the year ended June 30, 2014, employees of the School were covered by a health insurance plan. The School contributes \$325 per month per employee to the plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

#### Note 20 – Supplementary Financial Information

The School operates a single charter school. The School's only noncharter activity was the operation of an in-district charter school in the Austin Independent School District. This contract was terminated on June 30, 2013. 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.

**IDEA Public Schools, Inc.**

**Notes to the Financial Statements**

June 30, 2014

**Note 20 – Supplementary Financial Information (continued)**

Total assets transferred on termination of the in-district charter school to the School as of June 30, 2014:

**Current Assets**

Cash and cash equivalents	\$ <u>610,464</u>
Total current assets	<u>610,464</u>

**Property and Equipment**

Vehicles	19,977
Furniture and equipment	<u>41,918</u>
Total property and equipment	61,895
Less accumulated depreciation and amortization	<u>47,388</u>
Net property and equipment	<u>14,507</u>
Total assets transferred	\$ <u><u>624,971</u></u>

Other Supplemental Information

# IDEA Public Schools, Inc.

## Exhibit B-1 Statement of Activities for Individual Charter School – IDEA Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Local support:			
5740 Other revenues from local sources	\$ 538,158	\$ 10,332,848	\$ 10,871,006
5750 Other revenues from other activities	58,384	755,501	813,885
Total local support	<u>596,542</u>	<u>11,088,349</u>	<u>11,684,891</u>
State program revenues:			
5810 Foundation School Program Act revenues	-	127,250,372	127,250,372
5820 State program revenues distributed by the Texas Education Agency	-	1,421,633	1,421,633
5830 State revenues – other agencies	-	18,040	18,040
Total state program revenues	<u>-</u>	<u>128,690,045</u>	<u>128,690,045</u>
Federal program revenues:			
5920 Federal revenues distributed by the Texas Education Agency	-	17,256,585	17,256,585
5930 Federal revenues distributed by other State of Texas government agencies	-	456,699	456,699
5940 Federal revenues distributed directly from the federal government	-	12,562,275	12,562,275
Total federal program revenues	<u>-</u>	<u>30,275,559</u>	<u>30,275,559</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>155,940,450</u>	<u>(155,940,450)</u>	<u>-</u>
Total revenues	<u>156,536,992</u>	<u>14,113,503</u>	<u>170,650,495</u>
<b>Expenses</b>			
11 Instruction	63,972,537	-	63,972,537
12 Instructional resources and media services	1,160,323	-	1,160,323
13 Curriculum and instructional staff development	747,079	-	747,079
21 Instructional leadership	6,604,944	-	6,604,944
23 School leadership	14,764,395	-	14,764,395
31 Guidance, counseling, and evaluation services	6,240,145	-	6,240,145
33 Health services	716,569	-	716,569
34 Student (pupil) transportation	6,512,979	-	6,512,979
35 Food services	10,098,989	-	10,098,989
36 Cocurricular/extracurricular activities	1,404,961	-	1,404,961
41 General administration	10,424,033	-	10,424,033
51 Plant maintenance and operations	17,596,460	-	17,596,460
52 Security and monitoring services	475,480	-	475,480
53 Data processing services	3,025,906	-	3,025,906
61 Community services	188,074	-	188,074
71 Debt service	11,305,195	-	11,305,195
81 Fundraising	732,636	-	732,636
Total expenses	<u>155,970,705</u>	<u>-</u>	<u>155,970,705</u>
Loss on disposal of assets	(577,496)	-	(577,496)
Gain on disposal of assets	<u>5,547</u>	<u>-</u>	<u>5,547</u>
Change in net assets	(5,662)	14,113,503	14,107,841
Net assets at beginning of year	911,056	46,448,546	47,359,602
Equity transfer on termination of in-district charter	<u>624,971</u>	<u>-</u>	<u>624,971</u>
Net assets at end of year	<u>\$ 1,530,365</u>	<u>\$ 60,562,049</u>	<u>\$ 62,092,414</u>

**IDEA Public Schools, Inc.**

**Exhibit C-1**

**Schedule of Expenses for Individual Charter School – IDEA  
Year Ended June 30, 2014**

**Expenses**

6100	Payroll costs	\$ 84,151,556
6200	Professional and contracted services	19,964,848
6300	Supplies and materials	22,785,846
6400	Other operating costs	17,763,260
6500	Debt	<u>11,305,195</u>
	Total expenses	<u>\$ 155,970,705</u>

**IDEA Public Schools, Inc.**

Exhibit D-1

Schedule of Capital Assets for Individual Charter School – IDEA

June 30, 2014

<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	\$ -	\$ 22,119,263	\$ -
1520 Building and improvements	-	176,804,594	30,601
1531 Vehicles	-	4,925,815	120,217
1539 Furniture and equipment	-	1,720,552	1,938,536
Capital leases:			
1542 Building Improvements	-	2,645,291	-
1551 Building	-	978,060	-
1558 Vehicles	-	556,000	-
1559 Equipment	-	61,605	-
1580 Construction in progress	-	25,001,151	-
	<u>\$ -</u>	<u>\$ 234,812,331</u>	<u>\$ 2,089,354</u>

# IDEA Public Schools, Inc.

## Exhibit E-1 Budgetary Comparison Schedule for Individual Charter School – IDEA Year Ended June 30, 2014

	<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	\$ 11,865,304	\$ 10,481,698	\$ 10,871,006	\$ 389,308
5750 Other revenues from other activities	<u>1,030,683</u>	<u>896,499</u>	<u>813,885</u>	<u>(82,614)</u>
Total local support	<u>12,895,987</u>	<u>11,378,197</u>	<u>11,684,891</u>	<u>306,694</u>
State program revenues:				
5810 Foundation School Program Act revenues	118,606,168	126,551,569	127,250,372	698,803
5820 State program revenues distributed by the Texas Education Agency	1,846,922	1,554,456	1,421,633	(132,823)
5830 State revenues – other agencies	<u>-</u>	<u>18,040</u>	<u>18,040</u>	<u>-</u>
Total state program revenues	<u>120,453,090</u>	<u>128,124,065</u>	<u>128,690,045</u>	<u>565,980</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	17,794,097	17,834,930	17,256,585	(578,345)
5930 Federal revenues distributed by other State of Texas government agencies	213,000	456,699	456,699	-
5940 Federal revenues distributed directly from the federal government	<u>8,761,869</u>	<u>11,895,395</u>	<u>12,562,275</u>	<u>666,880</u>
Total federal program revenues	<u>26,768,966</u>	<u>30,187,024</u>	<u>30,275,559</u>	<u>88,535</u>
Total revenues	<u>160,118,043</u>	<u>169,689,286</u>	<u>170,650,495</u>	<u>961,209</u>
<b>Expenses</b>				
11 Instruction	56,666,687	64,327,743	63,972,537	355,206
12 Instructional resources and media services	949,117	1,192,441	1,160,323	32,118
13 Curriculum and instructional staff development	722,477	823,047	747,079	75,968
21 Instructional leadership	6,655,919	6,857,184	6,604,944	252,240
23 School leadership	14,515,925	14,744,759	14,764,395	(19,636)
31 Guidance, counseling and evaluation services	6,284,584	6,489,588	6,240,145	249,443
33 Health services	644,209	703,023	716,569	(13,546)
34 Student (pupil) transportation	6,620,461	6,663,117	6,512,979	150,138
35 Food services	11,028,002	11,112,854	10,098,989	1,013,865
36 Cocurricular/extracurricular activities	1,477,378	1,542,780	1,404,961	137,819
41 General administration	9,460,285	10,257,576	10,424,033	(166,457)
51 Plant maintenance and operations	15,365,026	17,740,659	17,596,460	144,199
52 Security and monitoring services	549,152	519,706	475,480	44,226
53 Data processing services	6,779,187	3,307,442	3,025,906	281,536
61 Community services	152,932	172,211	188,074	(15,863)
71 Debt service	11,209,902	11,198,840	11,305,195	(106,355)
81 Fundraising	<u>779,159</u>	<u>711,967</u>	<u>732,636</u>	<u>(20,669)</u>
Total expenses	<u>149,860,402</u>	<u>158,364,937</u>	<u>155,970,705</u>	<u>2,394,232</u>
Loss on disposal of assets	-	-	(577,496)	577,496
Gain on disposal of assets	<u>-</u>	<u>-</u>	<u>5,547</u>	<u>(5,547)</u>
Change in net assets	10,257,641	11,324,349	14,107,841	2,783,492
Net assets at beginning of year	47,359,602	47,359,602	47,359,602	-
Equity transfer on termination of in-district charter	<u>-</u>	<u>-</u>	<u>624,971</u>	<u>624,971</u>
Net assets at end of year	<u>\$ 57,617,243</u>	<u>\$ 58,683,951</u>	<u>\$ 62,092,414</u>	<u>\$ 3,408,463</u>



# IDEA Public Schools, Inc.

## Combining Statement of Financial Position

June 30, 2014

### 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	\$ 44,642,580	\$ -	\$ 44,642,580
Cash and cash equivalents – restricted	17,147,130	-	17,147,130
Due from government agencies	24,947,294	-	24,947,294
Other receivables	1,999,411	-	1,999,411
Inventories	70,547	-	70,547
Prepaid expenses	248,590	-	248,590
Other current assets	401,212	-	401,212
	<u>89,456,764</u>	<u>-</u>	<u>89,456,764</u>
 <b>Property and Equipment</b>			
Land and improvements	22,119,263	-	22,119,263
Buildings and improvements	177,813,255	-	177,813,255
Leasehold improvements	2,645,291	-	2,645,291
Vehicles	5,602,030	-	5,602,030
Furniture and equipment	3,720,694	-	3,720,694
Construction in progress	25,001,152	-	25,001,152
	<u>236,901,685</u>	<u>-</u>	<u>236,901,685</u>
Less accumulated depreciation and amortization	24,676,471	-	24,676,471
	<u>212,225,214</u>	<u>-</u>	<u>212,225,214</u>
 <b>Other Assets</b>			
Cash and cash equivalents – noncurrent – restricted	48,562,164	-	48,562,164
Bond and other debt issuance costs – net	6,204,200	-	6,204,200
Notes receivable – net	-	-	-
	<u>54,766,364</u>	<u>-</u>	<u>54,766,364</u>
 Total assets	 <u>\$ 356,448,342</u>	 <u>\$ -</u>	 <u>\$ 356,448,342</u>

**IDEA Public Schools, Inc.**

Combining Statement of Financial Position

June 30, 2014

(Continued)

**Liabilities and Net Assets**

<b>Current Liabilities</b>	<b>IDEA Charter</b>	<b>AISD In-District Charter</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Accounts payable	\$ 8,105,020	\$ -	\$ 8,105,020
Accrued wages payable	8,569,080	-	8,569,080
Accrued payroll expenses	1,381,101	-	1,381,101
Accrued interest payable	5,881,762	-	5,881,762
Accrued expenses	6,451,358	-	6,451,358
Deferred revenues	3,542,777	-	3,542,777
Other liabilities	116,357	-	116,357
Notes payable – current portion	3,947,114	-	3,947,114
Bonds payable – current portion	3,595,000	-	3,595,000
Capital leases payable – current portion	299,377	-	299,377
	<u>41,888,946</u>	<u>-</u>	<u>41,888,946</u>
<b>Total current liabilities</b>			
	<u>41,888,946</u>	<u>-</u>	<u>41,888,946</u>
<b>Long-Term Liabilities</b>			
Bonds payable	248,660,000	-	248,660,000
Discount on issuance of bonds – net of amortization	2,190,422	-	2,190,422
Notes payable	1,000,000	-	1,000,000
Capital leases payable	616,560	-	616,560
	<u>252,466,982</u>	<u>-</u>	<u>252,466,982</u>
<b>Total long-term liabilities</b>			
	<u>252,466,982</u>	<u>-</u>	<u>252,466,982</u>
<b>Total liabilities</b>			
	<u>294,355,928</u>	<u>-</u>	<u>294,355,928</u>
<b>Net Assets</b>			
Unrestricted	1,530,365	-	1,530,365
Temporarily restricted	60,562,049	-	60,562,049
	<u>62,092,414</u>	<u>-</u>	<u>62,092,414</u>
<b>Total net assets</b>			
	<u>62,092,414</u>	<u>-</u>	<u>62,092,414</u>
<b>Total liabilities and net assets</b>			
	<u>\$ 356,448,342</u>	<u>\$ -</u>	<u>\$ 356,448,342</u>

**IDEA Public Schools, Inc.**

Combining Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2014

	<b>IDEA Charter</b>	<b>AISD In-District Charter</b>	<b>Total</b>
<b>Revenues and Other Support</b>			
Local support:			
Contributions	\$ 1,287,263	\$ 202	\$ 1,287,465
Grants	5,241,406	-	5,241,406
Food service	813,885	-	813,885
Other revenues	4,342,337	3	4,342,340
<b>Total local support</b>	<b>11,684,891</b>	<b>205</b>	<b>11,685,096</b>
State program revenues:			
Foundation School Program	127,250,372	-	127,250,372
Other state aid	1,439,673	-	1,439,673
<b>Total state program revenues</b>	<b>128,690,045</b>	<b>-</b>	<b>128,690,045</b>
Federal program revenues:			
ESEA Title I – Part A	4,589,723	-	4,589,723
ESEA Title I – Part A – Priority and Focus School	36,700	-	36,700
ESEA Title I – Part G – Advanced Placement Program	46,740	-	46,740
ESEA Title II – Part A Teacher/Principal Training	1,103,225	-	1,103,225
ESEA Title III – Part A Language Acquisition	282,292	-	282,292
ESEA Title III – Part A Immigrant	32,230	-	32,230
IDEA B Formula – Special Education	1,248,270	-	1,248,270
IDEA – Part B Special Education Preschool Grants	6,156	-	6,156
ESEA Title V – Part B Charter Schools	3,106,493	-	3,106,493
ARRA ESEA Title XIV – Investing in Innovation	1,416,666	-	1,416,666
HEA Title IV – Part A GEAR-UP – Connect2College	1,628,224	-	1,628,224
ARRA ESEA Race To The Top – District Grants	6,300,074	-	6,300,074
ESEA Title V – Part D Fund for the Improvement of Education	100,226	-	100,226
Farm to School Grant Program	10,592	-	10,592
Child Nutrition	9,911,249	-	9,911,249
SSA, Title XIX – School Health and Related Services	456,699	-	456,699
<b>Total federal program revenues</b>	<b>30,275,559</b>	<b>-</b>	<b>30,275,559</b>
<b>Total revenues and other support</b>	<b>170,650,495</b>	<b>205</b>	<b>170,650,700</b>

**IDEA Public Schools, Inc.**

Combining Statement of Activities and Changes in Net Assets

Year Ended June 30, 2014

(Continued)

	<b>IDEA Charter</b>	<b>AISD In-District Charter</b>	<b>Total</b>
<b>Expenses</b>			
Program services:			
Instructional and instructional related services	\$ 65,879,940	\$ 20,338	\$ 65,900,278
Instructional and school leadership	21,369,338	648	21,369,986
Total program services	87,249,278	20,986	87,270,264
Support services:			
Administrative support services	10,424,033	-	10,424,033
Ancillary services	188,074	-	188,074
Support services – nonstudent based	21,097,846	30,630	21,128,476
Support services – student (pupil)	24,973,643	12,981	24,986,624
Debt service	11,305,195	-	11,305,195
Fundraising	732,636	-	732,636
Total support services	68,721,427	43,611	68,765,038
Total expenses	155,970,705	64,597	156,035,302
Loss on disposal of assets	(577,496)	-	(577,496)
Gain on disposal of assets	5,547	-	5,547
Change in net assets	14,107,841	(64,392)	14,043,449
Net assets at beginning of year	47,359,602	689,363	48,048,965
Equity transfer on termination of in-district charter	624,971	(624,971)	-
Net assets at end of year	\$ 62,092,414	\$ -	\$ 62,092,414

# IDEA Public Schools, Inc.

## Combining Statement of Cash Flows Year Ended June 30, 2014

	<b>IDEA Charter</b>	<b>AISD In-District Charter</b>	<b>Total</b>
<b>Cash Flows From Operating Activities</b>			
Change in net assets	\$ 14,107,841	\$ (64,392)	\$ 14,043,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	8,024,616	2,854	8,027,470
Allowance for doubtful accounts	232,600	-	232,600
Loss on disposal of assets	577,496	-	577,496
Gain on disposal of assets	(5,547)	-	(5,547)
Changes in current assets and liabilities:			
Due from government agencies	(8,044,380)	-	(8,044,380)
Other receivables	(694,151)	1,943	(692,208)
Inventories	(29,698)	-	(29,698)
Prepaid expenses	203,893	-	203,893
Other current assets	349,950	-	349,950
Accounts payable	752,796	(7,847)	744,949
Accrued wages payable	2,787,700	(114,151)	2,673,549
Accrued payroll expenses	1,065,878	(4,459)	1,061,419
Accrued interest payable	1,480,760	-	1,480,760
Accrued expenses	1,772,194	(40,537)	1,731,657
Deferred revenues	217,306	-	217,306
Other liabilities	14,498	(194,751)	(180,253)
Net cash provided by operating activities	<u>22,813,752</u>	<u>(421,340)</u>	<u>22,392,412</u>
<b>Cash Flows Used In Investing Activities</b>			
Construction and purchase of property and equipment	(45,397,387)	-	(45,397,387)
Proceeds from disposal of property and equipment	92,773	-	92,773
Investment in notes receivable from graduates	(51,824)	-	(51,824)
Transferred on termination of in-district charter	610,465	(610,465)	-
Net cash used in investing activities	<u>(44,745,973)</u>	<u>(610,465)</u>	<u>(45,356,438)</u>
<b>Cash Flows From Financing Activities</b>			
Proceeds from borrowings of long-term debt	74,381,090	-	74,381,090
Principal payments on long-term debt	(14,793,210)	-	(14,793,210)
Net cash provided by financing activities	<u>59,587,880</u>	<u>-</u>	<u>59,587,880</u>
Net increase in cash and cash equivalents	37,655,659	(1,031,805)	36,623,854
Cash and cash equivalents at beginning of year	<u>72,696,215</u>	<u>1,031,805</u>	<u>73,728,020</u>
Cash and cash equivalents at end of year	<u>\$ 110,351,874</u>	<u>\$ -</u>	<u>\$ 110,351,874</u>
Cash and cash equivalents	\$ 44,642,580	\$ -	\$ 44,642,580
Cash and cash equivalents – restricted	17,147,129	-	17,147,129
Cash and cash equivalents – noncurrent – restricted	<u>48,562,165</u>	<u>-</u>	<u>48,562,165</u>
Total cash and cash equivalents	<u>\$ 110,351,874</u>	<u>\$ -</u>	<u>\$ 110,351,874</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid for interest	<u>\$ 11,799,885</u>	<u>\$ -</u>	<u>\$ 11,799,885</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 financial statements of IDEA Public Schools, Inc. (the "School") which comprise the statement of financial position as of June 30, 2014, the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated August 27, 2014.

***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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**HOUSTON**

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**SAN ANTONIO**

100 N.E. LOOP 410, SUITE 1100  
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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.*

San Antonio, Texas

August 27, 2014

Independent Auditor's Report on Compliance for Each  
Major Federal Program and Report on Internal Control  
Over Compliance as Required by 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 each of the School's major federal programs for the year ended June 30, 2014. 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.

**AUSTIN**

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

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

### ***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 of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

San Antonio, Texas  
August 27, 2014

**IDEA Public Schools, Inc.**

**Exhibit F-1  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014**

**I – Summary of Auditor’s Results**

Type of auditor’s report issued: Unmodified

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: Unmodified

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
84.282M	ESEA Title V – Part B Charter Schools
84.411A	ARRA ESEA Title XIV – Investing in Innovation
84.334A	HEA Title IV – Part A GEAR-UP – Connect2College
84.416A	ARRA ESEA Race To The Top – District Grants
84.367A	ESEA Title II – Part A Teacher/Principal Training
84.027A	IDEA B Formula – Special Education
84.173A	IDEA – Part B Special Education Preschool Grants

Dollar threshold used to distinguish between type A and type B programs: \$908,267

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

**IDEA Public Schools, Inc.**

Exhibit F-1  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014  
(Continued)

**II – Financial Statement Finding**

None noted.

**III – Federal Awards Findings and Questioned Costs**

None noted.

**IDEA Public Schools, Inc.**

Exhibit G-1  
Corrective Action Plan  
Year Ended June 30, 2014

None.

**IDEA Public Schools, Inc.**

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2014

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

*Status:* The School has satisfactorily resolved this finding.

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

*Status:* The School has satisfactorily resolved this finding.

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

*Status:* The School has satisfactorily resolved this finding.

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

*Status:* The School is currently tracking match-to-date compared to the approved budget. Documentation has been submitted to the Department of Education in order to request an amendment to the approved budget.

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

*Status:* The School has satisfactorily resolved this finding.

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

*Status:* The School has satisfactorily resolved this finding.

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

*Status:* The School has satisfactorily resolved this finding.

# IDEA Public Schools, Inc.

## Exhibit H-1 Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

<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	\$ 3,106,493
ARRA ESEA Title XIV – Investing in Innovation	84.411A	U396C100748	1,416,666
HEA Title IV – Part A GEAR-UP – Connect2College	84.334A	P334A120084	1,628,224
ARRA ESEA Race To The Top – District Grants	84.416A	B416A130117	6,300,074
ESEA Title V – Part D Fund for the Improvement of Education	84.215F	S215F130324	<u>100,226</u>
Total Direct Program			<u>12,551,684</u>
Passed Through State Department of Education:			
ESEA Title I – Part A	84.010A	13610101108807	705,591
ESEA Title I – Part A	84.010A	14610101108807	3,884,132
ESEA Title I – Part A – Priority and Focus School	84.010A	14610112108807101	10,475
ESEA Title I – Part A – Priority and Focus School	84.010A	14610112108807104	6,225
ESEA Title I – Part A – Priority and Focus School	84.010A	14610112108807105	20,000
ESEA Title I – Part G – Advanced Placement Program	84.330B	S330B130035	46,740
ESEA Title II – Part A Teacher/Principal Training	84.367A	13694501108807	189,141
ESEA Title II – Part A Teacher/Principal Training	84.367A	14694501108807	914,084
ESEA Title III – Part A Language Acquisition	84.365A	13671001108807	100,998
ESEA Title III – Part A Language Acquisition	84.365A	14671001108807	181,294
ESEA Title III – Part A Immigrant	84.365A	13671003108807	32,230
IDEA B Formula – Special Education	84.027A	136600011088076600	246,228
IDEA B Formula – Special Education	84.027A	146600011088076600	1,002,042
IDEA – Part B Special Education Preschool Grants	84.173A	136610011088076610	<u>6,156</u>
Total Passed Through State Department of Education			<u>7,345,336</u>
Total United States Department of Education			<u>19,897,019</u>



**IDEA Public Schools, Inc.**

Exhibit H-1  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2014

<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 Agriculture:</u>			
Direct Program:			
Farm to School Grant Program	10.575	CN-F2S-PLAN-14-TX-01	\$ <u>10,592</u>
Total Direct Program			<u>10,592</u>
Passed Through State Department of Education:			
National School Breakfast Program	10.553	71401401	3,193,444
National School Lunch Program	10.555	71301401	6,277,467
USDA Commodities	10.555	71301401	<u>440,339</u>
Total Passed Through State Department of Education			<u>9,911,249</u>
Total United States Department of Agriculture			<u>9,911,249</u>
<u>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>456,699</u>
Total Passed Through Texas Health and Human Services Commission			<u>456,699</u>
Total Department of Health and Human Services			<u>456,699</u>
Total Expenditures of Federal Awards			\$ <u><u>30,275,559</u></u>

**IDEA Public Schools, Inc.**

**Notes to the Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2014

**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 June 30, 2014. 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	\$ 714,331

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