

# **IDEA Public Schools, Inc.**

## **Financial and Compliance Report**

June 30, 2015 and 2014

# IDEA Public Schools, Inc.

## Financial and Compliance Report

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# **IDEA Public Schools, Inc.**

## **Board of Directors**

### **Board of Directors**

Thomas E. Torkelson, Executive Chairman

Bill Martin, Chairman

Sergio Sanchez, Chairman Elect

Reba Cardenas-McNair, Secretary

David Guerra, Treasurer

Eric Ziehe, Member

Gabe Puente, Member

Bert Garcia, Member

Ryan Vaughn, Member

Xenia Garza, Member

David Earl, Member

Alonso Cantu, Member

Edna de Saro, Member

Mike Rhodes, Rio Grande Valley Regional Board Chair

David Handy, San Antonio Regional Board Chair

Al Lopez, Austin Regional Board Chair

### **Chief Executive Officer**

Thomas E. Torkelson

### **President and Superintendent**

JoAnn Gama

### **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, 2015, at a meeting of the governing body of the charter holder on the 16<sup>th</sup> day of September, 2015.

by: Aya Cardenas-McNair  
Signature of Board Secretary

W. J. ...  
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)



# Padgett Stratemann

## 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 statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years 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 audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years 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 28, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

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

San Antonio, Texas  
August 28, 2015

Financial Statements



# IDEA Public Schools, Inc.

## Exhibit A-1

### Statements of Financial Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 60,012,912	\$ 44,642,580
Cash and cash equivalents – restricted	20,654,813	17,147,130
Due from government agencies	30,815,023	24,947,294
Other receivables	671,186	1,999,411
Investments	134,675	-
Inventories	71,508	70,547
Prepaid expenses	590,214	248,590
Other current assets	296,109	401,212
	<u>113,246,440</u>	<u>89,456,764</u>
<b>Property and Equipment</b>		
Land and improvements	31,468,749	22,119,263
Buildings and improvements	198,021,263	177,813,255
Leasehold improvements	2,645,291	2,645,291
Vehicles	8,127,935	5,602,030
Furniture and equipment	5,046,714	3,720,694
Construction in progress	70,352,310	25,001,152
	<u>315,662,262</u>	<u>236,901,685</u>
Total property and equipment	315,662,262	236,901,685
Less accumulated depreciation and amortization	<u>33,917,042</u>	<u>24,676,471</u>
	<u>281,745,220</u>	<u>212,225,214</u>
<b>Other Assets</b>		
Cash and cash equivalents – noncurrent – restricted	43,467,233	48,562,164
Bond and other debt issuance costs – net	6,603,865	6,204,200
Notes receivable – net	-	-
	<u>50,071,098</u>	<u>54,766,364</u>
Total other assets	50,071,098	54,766,364
<b>Total assets</b>	<u>\$ 445,062,758</u>	<u>\$ 356,448,342</u>

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

# IDEA Public Schools, Inc.

## Exhibit A-1

### Statements of Financial Position – Continued

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 11,181,876	\$ 8,105,020
Accrued wages payable	8,123,686	8,569,080
Accrued payroll expenses	1,561,124	1,381,101
Accrued interest payable	6,919,571	5,881,762
Accrued expenses	8,693,408	6,451,358
Deferred revenues	5,380,209	3,542,777
Other liabilities	235,375	116,357
Notes payable – current portion	2,729,902	3,947,114
Bonds payable – current portion	4,625,000	3,595,000
Capital leases payable – current portion	620,194	299,377
	<u>50,070,345</u>	<u>41,888,946</u>
<b>Long-Term Liabilities</b>		
Bonds payable	305,295,000	248,660,000
Premium on issuance of bonds – net of amortization	10,821,160	2,190,422
Notes payable	1,966,852	1,000,000
Capital leases payable	686,150	616,560
	<u>318,769,162</u>	<u>252,466,982</u>
Total long-term liabilities	<u>318,769,162</u>	<u>252,466,982</u>
Total liabilities	<u>368,839,507</u>	<u>294,355,928</u>
<b>Net Assets</b>		
Unrestricted	772,015	1,530,365
Temporarily restricted	75,451,236	60,562,049
	<u>76,223,251</u>	<u>62,092,414</u>
Total net assets	<u>76,223,251</u>	<u>62,092,414</u>
<b>Total liabilities and net assets</b>	<u>\$ 445,062,758</u>	<u>\$ 356,448,342</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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Local support:			
Contributions	\$ 689,396	\$ 664,365	\$ 1,353,761
Grants	-	4,552,900	4,552,900
Food service	43,213	846,936	890,149
Other revenues	3,440	5,017,984	5,021,424
	<u>736,049</u>	<u>11,082,185</u>	<u>11,818,234</u>
Total local support			
State program revenues:			
Foundation School Program	-	161,605,689	161,605,689
Other state aid	-	2,454,982	2,454,982
	<u>-</u>	<u>164,060,671</u>	<u>164,060,671</u>
Total state program revenues			
Federal program revenues:			
ESEA Title I – Part A	-	5,048,109	5,048,109
ESEA Title I – Part A Priority and Focus School	-	127,537	127,537
ESEA Title I – Part G – Advanced Placement Program	-	24,375	24,375
ESEA Title II – Part A Teacher/Principal Training	-	1,007,896	1,007,896
ESEA Title III – Part A Language Acquisition	-	515,093	515,093
ESEA Title V – Part B Charter Schools	-	2,663,790	2,663,790
ESEA Title V – Part D Fund for the Improvement of Education	-	1,106,437	1,106,437
ARRA ESEA Title XIV – Investing in Innovation	-	605,382	605,382
ARRA ESEA Race to the Top – District Grants	-	6,940,361	6,940,361
HEA Title IV – Part A GEAR UP – Connect2College	-	1,645,174	1,645,174
IDEA B Formula – Special Education	-	1,726,776	1,726,776
IDEA B – Special Education – Preschool	-	3,742	3,742
Twenty – First Century Community Learning Centers	-	1,560,954	1,560,954
School Improvement Grants	-	293,440	293,440
Soil Conservation and Domestic Allotment Act	-	3,000	3,000
Farm to School Grant Program	-	27,041	27,041
Child Nutrition	-	13,318,164	13,318,164
SSA, Title XIX – School Health and Related Services	-	571,737	571,737
	<u>-</u>	<u>37,189,008</u>	<u>37,189,008</u>
Total federal program revenues			
Net assets released from restrictions:			
Restrictions satisfied by payments	197,442,677	(197,442,677)	-
	<u>197,442,677</u>	<u>(197,442,677)</u>	<u>-</u>
Total revenues and other support			
	<u>198,178,726</u>	<u>14,889,187</u>	<u>213,067,913</u>

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

# IDEA Public Schools, Inc.

## Exhibit A-2

### Statement of Activities and Changes in Net Assets – Continued

Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Expenses</b>			
Program services:			
Instructional and instructional related services	\$ 88,643,382	\$ -	\$ 88,643,382
Instructional and school leadership	<u>24,014,541</u>	<u>-</u>	<u>24,014,541</u>
Total program services	<u>112,657,923</u>	<u>-</u>	<u>112,657,923</u>
Support services:			
Administrative support services	12,359,754	-	12,359,754
Ancillary services	412,481	-	412,481
Support services – nonstudent based	26,353,208	-	26,353,208
Support services – student (pupil)	30,611,684	-	30,611,684
Debt service	11,601,717	-	11,601,717
Fundraising	<u>653,324</u>	<u>-</u>	<u>653,324</u>
Total support services	<u>81,992,168</u>	<u>-</u>	<u>81,992,168</u>
Total expenses	<u>194,650,091</u>	<u>-</u>	<u>194,650,091</u>
Gain on disposal of assets	6,667	-	6,667
Loss on extinguishment of debt	<u>(4,293,652)</u>	<u>-</u>	<u>(4,293,652)</u>
Change in net assets	(758,350)	14,889,187	14,130,837
Net assets at beginning of year	<u>1,530,365</u>	<u>60,562,049</u>	<u>62,092,414</u>
Net assets at end of year	<u>\$ 772,015</u>	<u>\$ 75,451,236</u>	<u>\$ 76,223,251</u>

*Notes to the 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 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	7,373	4,334,967	4,342,340
	<u>596,747</u>	<u>11,088,349</u>	<u>11,685,096</u>
Total local support			
State program revenues:			
Foundation School Program	-	127,250,372	127,250,372
Other state aid	-	1,439,673	1,439,673
	<u>-</u>	<u>128,690,045</u>	<u>128,690,045</u>
Total state program revenues			
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
	<u>-</u>	<u>30,275,559</u>	<u>30,275,559</u>
Total federal program revenues			
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>155,940,450</u>	<u>(155,940,450)</u>	<u>-</u>
	<u>156,537,197</u>	<u>14,113,503</u>	<u>170,650,700</u>
Total revenues and other support			

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

# IDEA Public Schools, Inc.

## Exhibit A-2

### Statement of Activities and Changes in Net Assets – Continued

Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Expenses</b>			
Program services:			
Instructional and instructional related services	\$ 65,900,278	\$ -	\$ 65,900,278
Instructional and school leadership	<u>21,369,986</u>	<u>-</u>	<u>21,369,986</u>
Total program services	<u>87,270,264</u>	<u>-</u>	<u>87,270,264</u>
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	<u>732,636</u>	<u>-</u>	<u>732,636</u>
Total support services	<u>68,765,038</u>	<u>-</u>	<u>68,765,038</u>
Total expenses	<u>156,035,302</u>	<u>-</u>	<u>156,035,302</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	(70,054)	14,113,503	14,043,449
Net assets at beginning of year	<u>1,600,419</u>	<u>46,448,546</u>	<u>48,048,965</u>
Net assets at end of year	<u>\$ 1,530,365</u>	<u>\$ 60,562,049</u>	<u>\$ 62,092,414</u>

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

# IDEA Public Schools, Inc.

## Exhibit A-3

### Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 14,130,837	\$ 14,043,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,381,893	8,027,470
Allowance for doubtful accounts	241,616	232,600
Loss on disposal of assets	-	577,496
Gain on disposal of assets	(6,667)	(5,547)
Loss on extinguishment of debt	4,293,652	-
Changes in current assets and liabilities:		
Due from government agencies	(5,867,729)	(8,044,380)
Other receivables	1,328,225	(692,208)
Inventories	(961)	(29,698)
Prepaid expenses	(341,624)	203,893
Other current assets	105,103	349,950
Accounts payable	3,076,856	744,949
Accrued wages payable	(445,394)	2,673,549
Accrued payroll expenses	180,023	1,061,419
Accrued interest payable	1,037,809	1,480,760
Accrued expenses	2,242,050	1,731,657
Deferred revenues	1,837,432	217,306
Other liabilities	119,018	(180,253)
	<u>31,312,139</u>	<u>22,392,412</u>
Net cash provided by operating activities		
	<u>31,312,139</u>	<u>22,392,412</u>
<b>Cash Flows From Investing Activities</b>		
Construction and purchase of property and equipment	(78,885,482)	(45,397,387)
Purchase of certificate of deposit	(134,675)	-
Proceeds from disposal of property and equipment	7,275	92,773
Investment in notes receivable from graduates	(241,616)	(51,824)
	<u>(79,254,498)</u>	<u>(45,356,438)</u>
Net cash used in investing activities		
	<u>(79,254,498)</u>	<u>(45,356,438)</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from borrowings of long-term debt	76,623,589	74,381,090
Principal payments on long-term debt	(13,336,313)	(14,793,210)
Payment to escrow for extinguishment of debt – net	(1,561,833)	-
	<u>61,725,443</u>	<u>59,587,880</u>
Net cash provided by financing activities		
	<u>61,725,443</u>	<u>59,587,880</u>
Net increase in cash and cash equivalents	13,783,084	36,623,854
Cash and cash equivalents at beginning of year	<u>110,351,874</u>	<u>73,728,020</u>
Cash and cash equivalents at end of year	\$ <u>124,134,958</u>	\$ <u>110,351,874</u>
Cash and cash equivalents	\$ 60,012,912	\$ 44,642,580
Cash and cash equivalents – restricted	20,654,813	17,147,130
Cash and cash equivalents – noncurrent – restricted	<u>43,467,233</u>	<u>48,562,164</u>
Total cash and cash equivalents	\$ <u>124,134,958</u>	\$ <u>110,351,874</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 16,744,979	\$ 11,799,885
Proceeds deposited into escrow for purposes of refunding bonds	32,901,106	-

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

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 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 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 2025. The School provides educational services to students in grades Pre-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, 2015 and 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, campus activity, and Race to the Top 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 June 30, 2015 and 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.



# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

### ***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).

### ***Notes Receivable***

Notes receivable represents loans from nonpublic fund sources 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, 2015 and 2014 totaled \$615,763 and \$232,601, respectively. 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 \$615,763 and \$232,601 at June 30, 2015 and 2014, respectively, 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.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

### ***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.

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 years ended June 30, 2015 and 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, 2015 and 2014

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 years prior to August 31, 2011.

### ***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 years ended June 30, 2015 and 2014 totaled \$883,836 and \$845,931, respectively.

### ***Subsequent Events***

The School has evaluated subsequent events that occurred after June 30, 2015 through the date of this report on August 28, 2015. 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, 2015 and 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, 2015, all investments were classified as Level 1. 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 consist of the following:

	June 30,	
	2015	2014
Petty cash	\$ 188	\$ 207
Checking accounts	60,001,482	44,631,139
Money market accounts	<u>64,133,288</u>	<u>65,720,528</u>
	<u>\$ 124,134,958</u>	<u>\$ 110,351,874</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

Cash and cash equivalents were temporarily restricted as follows:

	June 30,	
	2015	2014
Construction	\$ 36,286,822	\$ 38,355,221
Debt service requirements for bonds	<u>27,835,224</u>	<u>27,354,073</u>
	64,122,046	65,709,294
Less current cash and cash equivalents – restricted	<u>20,654,813</u>	<u>17,147,130</u>
Cash and cash equivalents – noncurrent – restricted	<u>\$ 43,467,233</u>	<u>\$ 48,562,164</u>

### Note 4 – Concentration of Credit Risk

The School maintains its cash deposits at Wells Fargo, Public Funds Administration and at June 30, 2015 and 2014, is insured up to \$384,675 and \$250,000, respectively, by the Federal Deposit Insurance Corporation. Investment securities held by Wells Fargo that had a carrying value at June 30, 2015 and 2014 of \$68,306,518 and \$48,470,865, respectively, 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, 2015 and 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 – Investments

Investments measured at fair value at June 30, 2015 consist of the following:

Certificate of deposit; maturing December 3, 2015; interest of 0.05%	<u>\$ 134,675</u>
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Interest income during the year ended June 30, 2015 totaled \$34.

The certificate of deposit with a maturity of December 3, 2015 is pledged as security for an irrevocable standby letter of credit for the benefit of the City of Weslaco. The letter of credit expires on December 3, 2015.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

### Note 6 – Due From Government Agencies

Amounts due from government agencies consist of the following:

	June 30,	
	2015	2014
Texas Department of Education, Texas Education Agency (“TEA”)	\$ 27,902,664	\$ 21,393,093
United States Department of Education	1,852,064	3,185,688
United States Department of Education passed through TEA	703,796	213,609
United States Department of Agriculture passed through TEA	<u>356,499</u>	<u>154,904</u>
	<u>\$ 30,815,023</u>	<u>\$ 24,947,294</u>

### Note 7 – Property and Equipment

Property and equipment consist of the following:

	June 30, 2014	Additions	Deductions and Transfers	June 30, 2015
Land and improvements	\$ 22,119,263	\$ 9,025,596	\$ 323,890	\$ 31,468,749
Buildings and improvements	177,813,255	43,659	20,164,349	198,021,263
Leasehold improvements	2,645,291	19,176	(19,176)	2,645,291
Vehicles	5,602,030	2,545,900	(19,995)	8,127,935
Furniture and equipment	3,720,694	1,052,882	273,138	5,046,714
Construction in progress	<u>25,001,152</u>	<u>64,692,601</u>	<u>(19,341,443)</u>	<u>70,352,310</u>
	236,901,685	77,379,814	1,380,763	315,662,262
Less accumulated depreciation and amortization	<u>24,676,471</u>	<u>9,364,868</u>	<u>(124,297)</u>	<u>33,917,042</u>
	<u>\$ 212,225,214</u>	<u>\$ 68,014,946</u>	<u>\$ 1,505,060</u>	<u>\$ 281,745,220</u>

Depreciation and amortization expense for the years ended June 30, 2015 and 2014 totaled \$9,381,893 and \$8,027,470, respectively.

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

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

### Note 8 – Bonds Payable

Bonds payable consist of the following:

	<u>June 30, 2014</u>	<u>Retirements</u>	<u>Additions</u>	<u>June 30, 2015</u>
Series 2007 A bonds	\$ 33,605,000	\$ (30,125,000)	\$ -	\$ 3,480,000
Series 2009 A and B bonds	28,665,000	(510,000)	-	28,155,000
Series 2010 A and B bonds	33,195,000	(745,000)	-	32,450,000
Series 2010 Q bonds	7,555,000	-	-	7,555,000
Series 2011	26,480,000	(455,000)	-	26,025,000
Series 2012	59,730,000	(1,100,000)	-	58,630,000
Series 2013	63,025,000	-	-	63,025,000
Series 2014	-	-	90,600,000	90,600,000
	<u>252,255,000</u>	<u>\$ (32,935,000)</u>	<u>\$ 90,600,000</u>	<u>309,920,000</u>
Less current portion	<u>3,595,000</u>			<u>4,625,000</u>
Net long-term bonds payable	<u>\$ 248,660,000</u>			<u>\$ 305,295,000</u>

Interest expense for the years ended June 30, 2015 and 2014 totaled \$15,516,217 and \$13,107,720, respectively. Capitalized interest for the years ended June 30, 2015 and 2014 totaled \$4,254,929 and \$2,233,315, respectively.

The Series 2010 Q Bonds tax credit interest subsidy for the years ended June 30, 2015 and 2014 totaled \$384,491 and \$381,795, respectively, and is reflected in Local Support, Other Revenues in the statements 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 School paid an insurance premium of \$722,942 to ACA Financial Guaranty Corporation (“ACA”) to issue a bond insurance policy related to the bonds.

As part of the Series 2014 bonds issuance, the School called and defeased \$29,340,000 of Series 2007 A, Education Revenue Bonds. The Series 2007 A bonds mature serially each August 15, starting 2015 through 2018, with a stated interest rate ranging from 4.125% to 4.250%. As a result of the defeasance, the School is no longer required to maintain a bond insurance policy related to the 2007 bonds.

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 Series 2007 A bonds are subject to optional redemption in whole or in part on August 15, 2017.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

### ***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, starting 2014 through 2039, with a stated interest rate ranging from 3.45% to 6.50%. The Series 2009 B bonds mature serially each August 15, starting 2012 through 2014, 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.

### ***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, starting 2020 through 2040, with a stated interest rate ranging from 5.125% to 6.700%. The Series 2009 B bonds mature August 15, 2014, 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.

### ***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, starting 2015 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 the Financial Statements

June 30, 2015 and 2014

### ***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, starting 2015 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.

### ***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 2013 bonds mature serially each August 15, 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.

### ***Series 2014 Bonds***

On October 1, 2014, the School issued \$90,600,000 of Education Revenue and Refunding Bonds, Series 2014. Proceeds of the bonds were for construction and future debt service. The Series 2014 bonds mature serially each August 15, starting 2016 through 2044, with a stated interest rate ranging from 2% to 5%.

As part of this issuance, the School called and defeased \$29,340,000 of Series 2007 A, Education Revenue Bonds, which resulted in a noncash loss of extinguishment of debt of \$4,293,652. As a result of this defeasance, the School will realize a total decrease in debt service payments of \$3,155,343, net of refunding expenses, which resulted in an economic gain of \$2,147,481.

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 2014 bonds. The Series 2014 bonds are subject to optional redemption in whole or in part on August 15, 2024.

All bond loan agreements establish 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, 2015, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreements.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

Debt service requirements for bonds payable for the year ended June 30, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Tax Credit Subsidy</u>	<u>Totals</u>
Year ending June 30,				
2016	\$ 4,625,000	\$ 16,444,582	\$ (414,769)	\$ 20,654,813
2017	5,860,000	16,245,285	(414,769)	21,690,516
2018	6,080,000	16,007,780	(414,769)	21,673,011
2019	6,340,000	15,733,961	(414,769)	21,659,192
2020	6,610,000	15,440,558	(414,769)	21,635,789
Thereafter	<u>280,405,000</u>	<u>205,022,864</u>	<u>(3,020,186)</u>	<u>482,407,678</u>
	<u>\$ 309,920,000</u>	<u>\$ 284,895,030</u>	<u>\$ (5,094,031)</u>	<u>\$ 589,720,999</u>

### Note 9 – Notes Payable

Notes payable consist of the following:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
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, 2015 and continuing regularly and semi-annually thereafter at monthly LIBOR plus 2.40% through the earlier of the issuance by the School of additional bonds or November 12, 2017. 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, 2015.	\$ 2,324,154	\$ -
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

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

	June 30,	
	<u>2015</u>	<u>2014</u>
A term note payable to Wells Fargo Equipment Finance, Inc. in the original amount of \$1,372,600; maturing July 10, 2018; requiring monthly payments of principal and interest, including interest at 3.15% through July 10, 2018. This note is secured by the corresponding buses acquired.	\$ 1,372,600	\$ -
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	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	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>	<u>100,000</u>
	4,696,754	4,947,114
Less current portion	<u>2,729,902</u>	<u>3,947,114</u>
	<u>\$ 1,966,852</u>	<u>\$ 1,000,000</u>

The future minimum payments for notes payable as of June 30, 2015 are as follows:

Year ending June 30,	
2016	\$ 2,729,902
2017	456,185
2018	910,667
2019	600,000
2020	-
Thereafter	-
	<u>\$ 4,696,754</u>

Interest expense for the years ended June 30, 2015 and 2014 totaled \$91,666 and \$138,897, respectively. Capitalized interest for the years ended June 30, 2015 and 2014 totaled \$0 and \$29,345, respectively.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

### Note 10 – Capital Leases Payable

Capital leases payable consist of the following:

	June 30,	
	2015	2014
<b>Buildings</b>		
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 corresponding building acquired.	\$ 242,074	\$ 359,937
<b>Buses</b>		
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.	189,270	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.	200,486	286,000
Capital lease payable to Regions Commercial Equipment, LLC in the original amount of \$192,000, requiring monthly payments in the amount of \$5,505, including interest at 2.07% through August 2017; secured by the corresponding buses acquired.	139,856	-
Capital lease payable to Regions Commercial Equipment, LLC in the original amount of \$112,000, requiring monthly payments in the amount of \$3,211, including interest at 2.07% through August 2017; secured by the corresponding buses acquired.	81,583	-
Capital lease payable to Regions Commercial Equipment, LLC in the original amount of \$484,000, requiring monthly payments in the amount of \$13,878, including interest at 2.07% through August 2017; secured by the corresponding buses acquired.	352,554	-
Capital lease payable to Regions Commercial Equipment, LLC in the original amount of \$138,000, requiring monthly payments in the amount of \$3,957, including interest at 2.07% through August 2017; secured by the corresponding buses acquired.	<u>100,521</u>	<u>-</u>
	<u>\$ 1,306,344</u>	<u>\$ 915,937</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

The future minimum lease payments under the capital leases and the net present value of future minimum lease payments as of June 30, 2015 are as follows:

Year ending June 30,		
2016		\$ 652,322
2017		628,589
2018		<u>69,045</u>
Total future minimum lease payments		1,349,956
Less amount representing interest		<u>43,612</u>
Present value of future minimum lease payments		1,306,344
Less current portion		<u>620,194</u>
Net long-term capital leases payable		<u>\$ 686,150</u>

Interest expense for the years ended June 30, 2015 and 2014 totaled \$48,287 and \$34,029, respectively.

### Note 11 – Long-Term Debt

Combined maturities for all long-term debt principal at June 30, 2015 are as follows:

	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Capital Leases Payable</u>	<u>Total Maturities</u>
Year ending June 30,				
2016	\$ 4,625,000	\$ 2,729,902	\$ 652,322	\$ 8,007,224
2017	5,860,000	456,185	628,589	6,944,774
2018	6,080,000	910,667	69,045	7,059,712
2019	6,340,000	600,000	-	6,940,000
2020	6,610,000	-	-	6,610,000
Thereafter	<u>280,405,000</u>	<u>-</u>	<u>-</u>	<u>280,405,000</u>
	<u>\$ 309,920,000</u>	<u>\$ 4,696,754</u>	<u>\$ 1,349,956</u>	<u>\$ 315,966,710</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

### Note 12 – Deferred Revenues

Deferred revenues consist of the following:

	June 30,	
	2015	2014
Choose to Succeed	\$ 1,022,500	\$ -
Harvey Najim Foundation	311,462	314,273
George W. Brakenridge Foundation	200,000	100,000
Ewing Halsell Foundation	1,092,980	685,824
H-E-B Healthy Campus Grant	5,555	5,001
Charter School Growth Fund	1,371,465	1,421,585
KLE Foundation	278,000	-
Mays Family Foundation	1,000,000	-
Karen and Tom Hixon Fund	98,247	-
Brown Foundation	-	500,000
Walton Foundation	-	100,000
Carnegie Foundation	-	99,403
Communities Foundation of Texas	-	58,132
Kern Family Foundation	-	37,096
Instructional Materials Allotment	-	221,463
	<u>\$ 5,380,209</u>	<u>\$ 3,542,777</u>

### Note 13 – Conditional Contributions

The School has conditional promises to give from philanthropic organizations as follows:

	June 30,	
	2015	2014
Choose to Succeed	\$ 612,213	\$ -
Harvey Najim Foundation	200,000	400,000
George W. Brakenridge Foundation	600,000	700,000
KLE Foundation	1,654,400	-
Ewing Halsell Foundation	4,000,000	5,500,000
Karen and Tom Hixon Foundation	300,000	400,000
H-E-B Healthy Campus Grant	-	5,000
Anonymous Grant	-	100,000
Charter School Growth Fund	-	2,000,000
	<u>\$ 7,366,613</u>	<u>\$ 9,105,000</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 2014

The future payments under the conditional promises to give from philanthropic organizations at June 30, 2015 are as follows:

Year ending June 30,	
2016	\$ 2,936,213
2017	2,529,000
2018	<u>1,901,400</u>
	<u>\$ 7,366,613</u>

Payment is contingent upon the School meeting certain criteria specified by the donor. As the condition for payment from the donor has not been met as of June 30, 2015, the amount has not been included in these financial statements.

### Note 14 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	June 30,	
	<u>2015</u>	<u>2014</u>
Child Nutrition Program	\$ 5,218,345	\$ 2,737,985
Summer Feeding Program	1,021	1,021
Race to the Top	291,217	531,508
Foundation School Program	68,981,710	56,432,831
Campus Activity Funds	958,943	856,046
Fresh Fruit and Vegetable Program	<u>-</u>	<u>2,658</u>
	<u>\$ 75,451,236</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:

	Years Ended June 30,	
	<u>2015</u>	<u>2014</u>
Philanthropic Grants	\$ 4,358,269	\$ 5,241,407
Campus Activity Funds	2,600,131	2,038,321
Foundation School Program	152,589,228	117,822,723
Instructional Materials Allotment	1,770,084	1,217,275
Other State Programs	649,844	430,112
Federal Programs	23,709,654	19,329,363
Child Nutrition Program	<u>11,765,467</u>	<u>9,861,249</u>
	<u>\$ 197,442,677</u>	<u>\$ 155,940,450</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

June 30, 2015 and 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 state legislature.

TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. The report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-877-0123, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under TRS Publications.

#### ***Funding Policy***

Under provisions in Texas state law, plan members are required to contribute 6.7% of their annual covered salary, and the state of Texas contributes an amount equal to 6.8% 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 years ended June 30, 2015 and 2014 totaled \$6,770,352 and \$4,905,439, respectively, equal to the required contributions for each year.



**IDEA Public Schools, Inc.**  
**Notes to the Financial Statements**  
June 30, 2015 and 2014

**Note 16 – Operating Leases**

For the year ended June 30, 2015, future minimum payments on long-term noncancellable operating leases are as follows:

Year ending June 30,	
2016	\$ 1,060,454
2017	350,112
2018	150,553
2019	86,400
2020	86,400
Thereafter	<u>252,000</u>
	<u>\$ 1,985,919</u>

Rent expense for the years ended June 30, 2015 and 2014 totaled \$2,150,237 and \$1,586,702, respectively.

**Note 17 – Commitments and Contingencies**

The School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to 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 19, 2015, the Board of Directors authorized the issuance of approximately \$72,235,000 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, 2015 and 2014

At June 30, 2015, the School had the following construction commitments:

	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Remaining Commitment</u>
Allan Campus	\$ 13,499,864	\$ 12,916,064	\$ 583,800
Carver Campus (Phase II)	10,424,550	6,036,752	4,387,798
Eastside MLK Campus	9,410,199	4,919,799	4,490,400
Monterrey Park Campus (Phase II)	5,672,800	-	5,672,800
North Mission Campus	10,363,275	-	10,363,275
Riverview Campus	9,378,496	8,295,951	1,082,545
Rundberg Campus	8,638,612	4,818,947	3,819,665
South Flores Campus (Phase II)	4,717,777	3,060,720	1,657,057
Walzem Campus (Phase I)	9,934,456	8,468,315	1,466,141
Walzem Campus (Phase II)	4,785,000	-	4,785,000
Headquarters	12,395,603	2,294,685	10,100,918
	<u>\$ 99,220,632</u>	<u>\$ 50,811,233</u>	<u>\$ 48,409,399</u>

### Note 18 – Health Insurance

During the year ended June 30, 2015, employees of the School were covered by a health insurance plan. The School contributes \$325-\$410 per month depending on the employees' health insurance plan rate. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

### Note 19 – Related Parties

In the ordinary course of business, the School has entered into contracted service transactions with vendors affiliated with School employees. Related party transactions consist of the following:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Payments	\$ 183,029	\$ 123,323
Accounts payable	<u>79,753</u>	<u>35,557</u>
	<u>\$ 262,782</u>	<u>\$ 158,880</u>

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Other Supplemental Information

# IDEA Public Schools, Inc.

## Exhibit B-1

### Statements of Activities for Individual Charter School

Years Ended June 30, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
<b>Revenues and Other Support</b>				
Local support:				
5740 Other revenues from local sources	\$ 692,836	\$ 10,230,717	\$ 10,923,553	\$ 10,871,006
5750 Other revenues from other activities	43,213	851,468	894,681	813,885
Total local support	<u>736,049</u>	<u>11,082,185</u>	<u>11,818,234</u>	<u>11,684,891</u>
State program revenues:				
5810 Foundation School Program Act revenues	-	161,605,689	161,605,689	127,250,372
5820 State program revenues distributed by the Texas Education Agency	-	2,412,471	2,412,471	1,421,633
5830 State revenues – other agencies	-	42,511	42,511	18,040
Total state program revenues	<u>-</u>	<u>164,060,671</u>	<u>164,060,671</u>	<u>128,690,045</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	23,625,502	23,625,502	17,256,585
5930 Federal revenues distributed by other state of Texas government agencies	-	572,321	572,321	456,699
5940 Federal revenues distributed directly from the federal government	-	12,991,185	12,991,185	12,562,275
Total federal program revenues	<u>-</u>	<u>37,189,008</u>	<u>37,189,008</u>	<u>30,275,559</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>197,442,677</u>	<u>(197,442,677)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>198,178,726</u>	<u>14,889,187</u>	<u>213,067,913</u>	<u>170,650,495</u>
<b>Expenses</b>				
11 Instruction	83,630,617	-	83,630,617	63,972,537
12 Instructional resources and media services	1,963,604	-	1,963,604	1,160,323
13 Curriculum and instructional staff development	3,049,161	-	3,049,161	747,079
21 Instructional leadership	5,795,855	-	5,795,855	6,604,944
23 School leadership	18,218,686	-	18,218,686	14,764,395
31 Guidance, counseling, and evaluation services	7,498,203	-	7,498,203	6,240,145
33 Health services	801,875	-	801,875	716,569
34 Student (pupil) transportation	8,240,516	-	8,240,516	6,512,979
35 Food services	12,193,184	-	12,193,184	10,098,989
36 Cocurricular/extracurricular activities	1,877,906	-	1,877,906	1,404,961
41 General administration	12,359,754	-	12,359,754	10,424,033
51 Plant maintenance and operations	20,791,549	-	20,791,549	17,596,460
52 Security and monitoring services	796,588	-	796,588	475,480
53 Data processing services	4,765,071	-	4,765,071	3,025,906
61 Community services	412,481	-	412,481	188,074
71 Debt service	11,601,717	-	11,601,717	11,305,195
81 Fundraising	653,324	-	653,324	732,636
Total expenses	<u>194,650,091</u>	<u>-</u>	<u>194,650,091</u>	<u>155,970,705</u>
Loss on disposal of assets	-	-	-	(577,496)
Gain on disposal of assets	6,667	-	6,667	5,547
Loss on extinguishment of debt	<u>(4,293,652)</u>	<u>-</u>	<u>(4,293,652)</u>	<u>-</u>
Change in net assets	(758,350)	14,889,187	14,130,837	14,107,841
Net assets at beginning of year	1,530,365	60,562,049	62,092,414	47,359,602
Equity transfer on termination of in-district charter	-	-	-	624,971
Net assets at end of year	<u>\$ 772,015</u>	<u>\$ 75,451,236</u>	<u>\$ 76,223,251</u>	<u>\$ 62,092,414</u>

# IDEA Public Schools, Inc.

## Exhibit C-1

### Schedules of Expenses for Individual Charter School

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Expenses</b>		
6100 Payroll costs	\$ 109,251,027	\$ 84,151,556
6200 Professional and contracted services	23,815,007	19,964,848
6300 Supplies and materials	28,435,995	22,785,846
6400 Other operating costs	21,546,346	17,763,260
6500 Debt	<u>11,601,716</u>	<u>11,305,195</u>
Total expenses	<u>\$ 194,650,091</u>	<u>\$ 155,970,705</u>

# IDEA Public Schools, Inc.

## Exhibit D-1

### Schedule of Capital Assets for Individual Charter School

June 30, 2015

Asset Classification	Ownership Interest		
	Local	State	Federal
<b>Property and Equipment</b>			
1510 Land and improvements	\$ -	\$ 31,468,749	\$ -
1520 Building and improvements	-	197,028,703	14,500
1531 Vehicles	-	6,525,718	120,217
1539 Furniture and equipment	-	2,687,872	2,322,603
Capital leases:			
1542 Building Improvements	-	2,645,291	-
1551 Building	-	978,060	-
1558 Vehicles	-	1,482,000	-
1559 Equipment	-	36,239	-
1580 Construction in progress	-	69,858,060	494,250
	<u>\$ -</u>	<u>\$ 312,710,692</u>	<u>\$ 2,951,570</u>

# IDEA Public Schools, Inc.

## Exhibit E-1

### Budgetary Comparison Schedule for Individual Charter School

Year Ended June 30, 2015

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 10,869,550	\$ 10,268,939	\$ 10,923,553	\$ 654,614
5750 Other revenues from other activities	1,352,374	879,144	894,681	15,537
Total local support	12,221,924	11,148,083	11,818,234	670,151
State program revenues:				
5810 Foundation School Program Act revenues	153,646,013	158,056,596	161,605,689	3,549,093
5820 State program revenues distributed by the Texas Education Agency	2,689,861	2,663,535	2,412,471	(251,064)
5830 State revenues – other agencies	-	46,864	42,511	(4,353)
Total state program revenues	156,335,874	160,766,995	164,060,671	3,293,676
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	22,292,530	23,731,455	23,625,502	(105,953)
5930 Federal revenues distributed by other state of Texas government agencies	425,000	585,000	572,321	(12,679)
5940 Federal revenues distributed directly from the federal government	12,984,574	14,271,870	12,991,185	(1,280,685)
Total federal program revenues	35,702,104	38,588,325	37,189,008	(1,399,317)
Total revenues	204,259,902	210,503,403	213,067,913	2,564,510
<b>Expenses</b>				
11 Instruction	78,840,706	82,673,164	83,630,617	(957,453)
12 Instructional resources and media services	2,005,873	2,076,511	1,963,604	112,907
13 Curriculum and instructional staff development	3,301,951	2,836,077	3,049,161	(213,084)
21 Instructional leadership	5,804,192	5,317,794	5,795,855	(478,061)
23 School leadership	18,021,015	17,714,124	18,218,686	(504,562)
31 Guidance, counseling and evaluation services	8,532,579	8,218,717	7,498,203	720,514
33 Health services	794,753	761,485	801,875	(40,390)
34 Student (pupil) transportation	7,696,090	7,911,163	8,240,516	(329,353)
35 Food services	13,955,465	13,397,205	12,193,184	1,204,021
36 Cocurricular/extracurricular activities	2,201,412	2,063,150	1,877,906	185,244
41 General administration	11,915,865	11,392,480	12,359,754	(967,274)
51 Plant maintenance and operations	21,568,382	20,777,395	20,791,549	(14,154)
52 Security and monitoring services	615,205	753,053	796,588	(43,535)
53 Data processing services	5,181,550	4,477,308	4,765,071	(287,763)
61 Community services	204,973	447,862	412,481	35,381
71 Debt service	12,611,164	11,612,158	11,601,717	10,441
81 Fundraising	665,749	681,415	653,324	28,091
Total expenses	193,916,924	193,111,061	194,650,091	(1,539,030)
Gain on disposal of assets	-	-	6,667	6,667
Loss on extinguishment of debt	-	(4,293,652)	(4,293,652)	-
Change in net assets	10,342,978	13,098,690	14,130,837	1,032,147
Net assets at beginning of year	62,092,414	62,092,414	62,092,414	-
Net assets at end of year	\$ 72,435,392	\$ 75,191,104	\$ 76,223,251	\$ 1,032,147



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## Compliance Section

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## Padgett Stratemann

### 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, 2015, 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, and have issued our report thereon dated August 28, 2015.

#### ***Internal Control Over Financial Reporting***

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

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

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

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### ***Compliance and Other Matters***

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

### ***Purpose of This Report***

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

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

San Antonio, Texas

August 28, 2015



## Padgett Stratemann

### 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, 2015. The School's major federal programs are identified in the summary of auditor's 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.

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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, 2015.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2015-001 and 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

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

### ***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.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any

deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Findings 2015-001 and 2015-002 that we consider to be significant deficiencies.

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

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 28, 2015



# IDEA Public Schools, Inc.

## Exhibit F-1

### Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

#### 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)?

  X   Yes                      \_\_\_\_\_ None Reported

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

  X   Yes                      \_\_\_\_\_ No

Identification of major programs:

CFDA Number(s)

Name of Federal Program

84.215F

ESEA Title V – Part D Fund for the Improvement of Education

84.287C

Twenty-First Century Community Learning Centers

10.553

National School Breakfast Program

10.555

National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs:

\$1,115,670

Auditee qualified as low-risk auditee?

  X   Yes                      \_\_\_\_\_ No

# IDEA Public Schools, Inc.

## Exhibit F-1

### Schedule of Findings and Questioned Costs – Continued

Year Ended June 30, 2015

#### II – Financial Statement Finding

None Noted.

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

##### Finding 2015-001: Special Tests and Provisions (Verification)

Federal Program: National School Breakfast and Lunch Program Cluster

CFDA Number: 10.553 and 10.555

Pass-Through Entity Identifying Numbers: 71401401/71401501

United States Department of Agriculture

Type of Finding: Noncompliance and Significant Deficiency

*Criteria:* Annually, local education agencies are required to verify the current fee and reduced price eligibility of households selected from a sample of applications that have been approved for free and reduced price meals. The verification process includes verifying income and household size included in the application to supporting documentation.

*Condition:* During testing, we noted that 1 of the 21 applications tested for proper verification incorrectly computed the income for the household. The income that should have been used in the computation would have changed the eligibility status from free to full-pay.

*Questioned Costs:* Known and likely questioned costs would be zero, based on the estimated benefits received over the revised status.

*Possible Asserted Effect:* Certain households may have received additional benefits from this program that the household was not eligible for.

*Recommendation:* We recommend the School enhance its verification process to ensure income is correctly computed.

*Views of Responsible Officials:* Management concurs with the recommendation. The School has enhanced the verification process to ensure mathematical errors are avoided.

*Responsible Person:* Vice President of Auxiliary Services

*Implementation Date:* Completed

# IDEA Public Schools, Inc.

## Exhibit F-1

### Schedule of Findings and Questioned Costs – Continued

Year Ended June 30, 2015

#### **Finding 2015-002: Allowable Costs**

Federal Program: Twenty-First Century Community Learning Centers

CFDA Number: 84.287C

Pass-Through Entity Identifying Number: 146950217110004

United States Department of Education

Type of Finding: Noncompliance and Significant Deficiency

*Criteria:* In accordance with OMB Circular A-87, Paragraph 8m, *Support of Salaries and Wages*, the distribution of salaries and wages must be supported by personnel activity reports, must be prepared at least monthly, and must coincide with one or more pay periods.

*Condition:* During testing of payroll costs, we noted one employee approved their own time sheets that supported their personnel activity reports and another employee's time sheets were not approved until several months after the pay period. Additionally, the program director did not complete any personnel activity reports for the year.

*Questioned Costs:* \$48,644

*Recommendation:* We recommend the School strengthen its procedures over monitoring employees charged to federal programs to ensure they are meeting the requirement related to support of salaries and wages timely.

*View of Responsible Officials:* Management concurs with the recommendation. The School has implemented procedures to ensure monitoring of time and effort records to reflect an actual after-the-fact determination of actual hours worked on the program in accordance with OMB Circular A-87.

*Responsible Person:* Twenty-First Century Director

*Implementation Date:* Completed

# **IDEA Public Schools, Inc.**

## **Exhibit G-1**

### **Corrective Action Plan**

Year Ended June 30, 2015

#### **Finding 2015-001: Special Tests and Provisions (Verification)**

Federal Program: National School Breakfast and Lunch Program Cluster

CFDA Number: 10.553 and 10.555

The School has enhanced the verification process to ensure mathematical errors are avoided and that households receive the benefits for which they are eligible.

#### **Finding 2015-002: Allowable Costs**

Federal Program: Twenty-First Century Community Learning Centers

CFDA Number: 84.287C

The School has implemented procedures to ensure monitoring of time and effort records to reflect an actual after-the-fact determination of actual hours worked on the program in accordance with OMB Circular A-87.

# **IDEA Public Schools, Inc.**

## **Summary Schedule of Prior Audit Findings**

Year Ended June 30, 2015

### **Finding 2014-04: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) – Matching**

*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, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>United States Department of Education:</u>			
Direct Programs:			
ESEA Title V – Part B Charter Schools	84.282M	U282M100007	\$ 2,648,339
ESEA Title V – Part B Charter Schools	84.282M	U282M140009	15,451
ARRA ESEA Title XIV – Investing in Innovation	84.411A	U396C100748	605,382
HEA Title IV – Part A GEAR-UP – Connect2College	84.334A	P334A120084	1,645,174
ARRA ESEA Race To The Top – District Grants	84.416A	B416A130117	6,940,361
ESEA Title V – Part D Fund for the Improvement of Education	84.215F	S215F130324	<u>1,106,437</u>
Total Direct Programs			<u>12,961,144</u>
Passed Through State Department of Education:			
ESEA Title I – Part A	84.010A	15610101108807	5,048,109
ESEA Title I – Part A – Priority and Focus School	84.010A	15610112108807101	25,524
ESEA Title I – Part A – Priority and Focus School	84.010A	14610112108807104	86,013
ESEA Title I – Part A – Priority and Focus School	84.010A	15610112108807105	16,000
ESEA Title II – Part A Teacher/Principal Training	84.367A		31,501
ESEA Title II – Part A Teacher/Principal Training	84.367A	15694501108807	976,395
ESEA Title III – Part A Language Acquisition	84.365A	14671001108807	76,559
ESEA Title III – Part A Language Acquisition	84.365A	15671001108807	370,042
ESEA Title III – Part A Language Acquisition	84.365A	15671003108807	68,492
IDEA B Formula – Special Education	84.027A	146600011088076600	243,364
IDEA B Formula – Special Education	84.027A	156600011088076600	1,483,413
IDEA B – Special Education – Preschool	84.173A	156610011088076610	3,742
Twenty-First Century Community Learning Centers	84.287C	146950217110004	1,560,954
School Improvement Grants	84.377A	146107107110007	293,440
ESEA Title I – Part G – Advanced Placement Program	84.330B		<u>24,375</u>
Total Passed Through State Department of Education			<u>10,307,922</u>
Total United States Department of Education			<u>23,269,066</u>

# IDEA Public Schools, Inc.

## Exhibit H-1

### Schedule of Expenditures of Federal Awards – Continued

Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>United States Department of Agriculture:</u>			
Direct Programs:			
Soil Conservation and Domestic Allotment Act	10.905	68-7442-15-520	\$ 3,000
Farm to School Grant Program	10.575	CN-F2S-PLAN-14-TX-01	<u>27,041</u>
Total Direct Programs			<u>30,041</u>
Passed Through State Department of Education:			
National School Breakfast Program	10.553	71401401	896,680
National School Breakfast Program	10.553	71401501	3,575,293
National School Lunch Program	10.555	71301401	1,648,885
National School Lunch Program	10.555	71301501	6,741,268
USDA Commodities	10.555	71301501	455,454
Child Nutrition Direct Certification Performance Awards	10.589	N/A	<u>584</u>
Total Passed Through State Department of Education			<u>13,318,164</u>
Total United States Department of Agriculture			<u>13,348,205</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>571,737</u>
Total Passed Through Texas Health and Human Services Commission			<u>571,737</u>
Total Department of Health and Human Services			<u>571,737</u>
Total Expenditures of Federal Awards			<u>\$ 37,189,008</u>

# IDEA Public Schools, Inc.

## Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

### 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, 2015. The information in the 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>Federal CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipient</u>
84.411A	ARRA ESEA Title XIV – Investing in Innovation	\$ 337,047



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