

**IDEA Public Schools, Inc.**

**Financial and Compliance Report**

June 30, 2016 and 2015

# IDEA Public Schools, Inc.

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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

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, 2016, at a meeting of the governing body of the charter holder on the 9<sup>th</sup> day of September, 2016.

  
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)



# 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, 2016 and 2015, 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 audits 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, 2016 and 2015, 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 *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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 12, 2016 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 12, 2016

Financial Statements



# IDEA Public Schools, Inc.

## Exhibit A-1

### Statements of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 80,454,187	\$ 60,012,912
Cash and cash equivalents – restricted	24,923,115	20,654,813
Due from government agencies	35,407,854	30,815,023
Other receivables	245,189	671,186
Investments	134,743	134,675
Inventories	124,590	71,508
Prepaid expenses	446,822	590,214
Other current assets	213,769	296,109
	<u>141,950,269</u>	<u>113,246,440</u>
<b>Property and Equipment</b>		
Land and improvements	37,731,129	31,468,749
Buildings and improvements	244,580,903	198,021,263
Leasehold improvements	2,913,247	2,645,291
Vehicles	8,934,259	8,127,935
Furniture and equipment	7,155,518	5,046,714
Construction in progress	114,514,317	70,352,310
	<u>415,829,373</u>	<u>315,662,262</u>
Total property and equipment	415,829,373	315,662,262
Less accumulated depreciation and amortization	<u>46,141,058</u>	<u>33,917,042</u>
	<u>369,688,315</u>	<u>281,745,220</u>
<b>Other Assets</b>		
Cash and cash equivalents – noncurrent – restricted	38,457,826	43,467,233
Bond and other debt issuance costs – net	7,518,532	6,603,865
Notes receivable – net	<u>-</u>	<u>-</u>
	<u>45,976,358</u>	<u>50,071,098</u>
Total other assets	45,976,358	50,071,098
<b>Total assets</b>	<u>\$ 557,614,942</u>	<u>\$ 445,062,758</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 19,267,419	\$ 11,181,876
Accrued wages payable	10,775,456	8,123,686
Accrued payroll expenses	3,227,867	1,561,124
Accrued interest payable	8,227,841	6,919,571
Accrued expenses	9,125,198	8,693,408
Deferred revenues	6,704,585	5,380,209
Other liabilities	196,810	235,375
Notes payable – current portion	7,937,603	2,729,902
Bonds payable – current portion	5,860,000	4,625,000
Capital leases payable – current portion	659,414	620,194
	<u>71,982,193</u>	<u>50,070,345</u>
<b>Long-Term Liabilities</b>		
Bonds payable	370,320,000	305,295,000
Premium on issuance of bonds – net of amortization	16,099,737	10,821,160
Notes payable	1,645,754	1,966,852
Capital leases payable	644,346	686,150
	<u>388,709,837</u>	<u>318,769,162</u>
Total long-term liabilities	<u>388,709,837</u>	<u>318,769,162</u>
Total liabilities	<u>460,692,030</u>	<u>368,839,507</u>
<b>Net Assets</b>		
Unrestricted	439,951	772,015
Temporarily restricted	96,482,961	75,451,236
	<u>96,922,912</u>	<u>76,223,251</u>
Total net assets	<u>96,922,912</u>	<u>76,223,251</u>
<b>Total liabilities and net assets</b>	<u>\$ 557,614,942</u>	<u>\$ 445,062,758</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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Local support:			
Contributions	\$ 756,824	\$ 2,557,972	\$ 3,314,796
Grants	-	5,209,807	5,209,807
Food service	-	949,641	949,641
Other revenues	7,178	4,807,624	4,814,802
	<u>764,002</u>	<u>13,525,044</u>	<u>14,289,046</u>
Total local support			
State program revenues:			
Foundation School Program	-	205,329,975	205,329,975
Other state aid	-	3,807,219	3,807,219
	<u>-</u>	<u>209,137,194</u>	<u>209,137,194</u>
Total state program revenues			
Federal program revenues:			
ESEA Title I – Part A	-	4,990,361	4,990,361
ESEA Title I – Part A Priority and Focus School	-	28,975	28,975
ESEA Title II – Part A Teacher/Principal Training	-	1,346,661	1,346,661
ESEA Title III – Part A Language Acquisition	-	530,168	530,168
ESEA Title V – Part B Charter Schools	-	3,792,410	3,792,410
ESEA Title V – Part D Fund for the Improvement of Education	-	691,198	691,198
ARRA ESEA Race to the Top – District Grants	-	8,945,424	8,945,424
HEA Title IV – Part A GEAR UP – Connect2College	-	2,145,868	2,145,868
IDEA B Formula – Special Education	-	2,705,454	2,705,454
IDEA B – Special Education – Preschool	-	1,805	1,805
Twenty – First Century Community Learning Centers	-	2,373,477	2,373,477
School Improvement Grants	-	579,519	579,519
Advanced Placement Program	-	31,460	31,460
Child Nutrition	-	16,668,604	16,668,604
SSA, Title XIX – School Health and Related Services	-	911,179	911,179
	<u>-</u>	<u>45,742,563</u>	<u>45,742,563</u>
Total federal program revenues			
Net assets released from restrictions:			
Restrictions satisfied by payments	247,373,076	(247,373,076)	-
	<u>248,137,078</u>	<u>21,031,725</u>	<u>269,168,803</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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Expenses</b>			
Program services:			
Instructional and instructional-related services	\$ 115,199,555	\$ -	\$ 115,199,555
Instructional and school leadership	<u>31,074,477</u>	<u>-</u>	<u>31,074,477</u>
Total program services	<u>146,274,032</u>	<u>-</u>	<u>146,274,032</u>
Support services:			
Administrative support services	13,487,085	-	13,487,085
Ancillary services	415,105	-	415,105
Support services – nonstudent based	40,295,114	-	40,295,114
Support services – student (pupil)	31,596,486	-	31,596,486
Debt service	15,247,506	-	15,247,506
Fundraising	<u>1,394,453</u>	<u>-</u>	<u>1,394,453</u>
Total support services	<u>102,435,749</u>	<u>-</u>	<u>102,435,749</u>
Total expenses	<u>248,709,781</u>	<u>-</u>	<u>248,709,781</u>
Gain on disposal of assets	240,767	-	240,767
Loss on disposal of assets	<u>(128)</u>	<u>-</u>	<u>(128)</u>
Change in net assets	(332,064)	21,031,725	20,699,661
Net assets at beginning of year	<u>772,015</u>	<u>75,451,236</u>	<u>76,223,251</u>
Net assets at end of year	<u>\$ 439,951</u>	<u>\$ 96,482,961</u>	<u>\$ 96,922,912</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, 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	<u>3,440</u>	<u>5,017,984</u>	<u>5,021,424</u>
Total local support	<u>736,049</u>	<u>11,082,185</u>	<u>11,818,234</u>
State program revenues:			
Foundation School Program	-	161,605,689	161,605,689
Other state aid	<u>-</u>	<u>2,454,982</u>	<u>2,454,982</u>
Total state program revenues	<u>-</u>	<u>164,060,671</u>	<u>164,060,671</u>
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	<u>-</u>	<u>571,737</u>	<u>571,737</u>
Total federal program revenues	<u>-</u>	<u>37,189,008</u>	<u>37,189,008</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<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-3

### Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 20,699,661	\$ 14,130,837
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,176,565	9,381,893
Allowance for doubtful accounts	698,848	241,616
Gain on disposal of assets	(240,767)	(6,667)
Loss on disposal of assets	128	-
Loss on extinguishment of debt	-	4,293,652
Changes in current assets and liabilities:		
Due from government agencies	(4,592,831)	(5,867,729)
Other receivables	425,997	1,328,225
Inventories	(53,082)	(961)
Prepaid expenses	143,392	(341,624)
Other current assets	82,340	105,103
Accounts payable	8,085,543	3,076,856
Accrued wages payable	2,651,770	(445,394)
Accrued payroll expenses	1,666,743	180,023
Accrued interest payable	1,308,270	1,037,809
Accrued expenses	431,790	2,242,050
Deferred revenues	1,324,376	1,837,432
Other liabilities	(38,565)	119,018
Net cash provided by operating activities	<u>44,770,178</u>	<u>31,312,139</u>
<b>Cash Flows From Investing Activities</b>		
Construction and purchase of property and equipment	(100,829,376)	(78,885,482)
Purchase of certificate of deposit	-	(134,675)
Investment in certificate of deposit	(68)	-
Proceeds from disposal of property and equipment	788,702	7,275
Investment in notes receivable from graduates	(698,848)	(241,616)
Net cash used in investing activities	<u>(100,739,590)</u>	<u>(79,254,498)</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from borrowings of long-term debt	86,281,474	76,623,589
Principal payments on long-term debt	(10,611,892)	(13,336,313)
Payment to escrow for extinguishment of debt – net	-	(1,561,833)
Net cash provided by financing activities	<u>75,669,582</u>	<u>61,725,443</u>
Net increase in cash and cash equivalents	19,700,170	13,783,084
Cash and cash equivalents at beginning of year	<u>124,134,958</u>	<u>110,351,874</u>
Cash and cash equivalents at end of year	<u>\$ 143,835,128</u>	<u>\$ 124,134,958</u>
Cash and cash equivalents	\$ 80,454,187	\$ 60,012,912
Cash and cash equivalents – restricted	24,923,115	20,654,813
Cash and cash equivalents – noncurrent – restricted	<u>38,457,826</u>	<u>43,467,233</u>
Total cash and cash equivalents	<u>\$ 143,835,128</u>	<u>\$ 124,134,958</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 17,805,065	\$ 16,744,979
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

### Note 1 – Organization and Significant Accounting Policies

#### **Organization**

IDEA Public Schools, Inc. (charter holder known as IDEA Academy, Inc.) operated only a single charter school, IDEA Public Schools, and did not conduct any other charter or noncharter activities for the fiscal years ended June 30, 2016 and 2015, respectively. 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.

#### **Recent Accounting Pronouncements**

**Leases** – In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*. The guidance in this ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The School is currently evaluating the impact of its pending adoption of the new standard on its financial statements.

**Debt Issuance Costs** – In April 2015, FASB issued ASU No. 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015 and for interim periods within fiscal years beginning after December 15, 2016. Early adoption of the amendments is permitted for financial statements that have not been previously issued.

#### **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”). FASB 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.



# IDEA Public Schools, Inc.

## Notes to the Financial Statements

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, 2016 and 2015, 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, 2016 and 2015, 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

### **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 changes in 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, 2016 and 2015 totaled \$1,314,610 and \$615,763, 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 \$1,314,610 and \$615,763 at June 30, 2016 and 2015, 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.

### **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

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

### ***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, 2016 and 2015.

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

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

### ***Contingencies***

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

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

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

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills 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.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

### ***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, 2016 and 2015 totaled \$1,318,784 and \$883,836, respectively.

### ***Subsequent Events***

The School has evaluated subsequent events that occurred after June 30, 2016 through the date of this report on August 12, 2016. Any material subsequent events that occurred during this time have been properly recognized or disclosed in the financial statements.

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

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

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

At June 30, 2016 and 2015, all investments were classified as Level 1.

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

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

### Note 3 – Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	June 30,	
	2016	2015
Petty cash	\$ 248	\$ 188
Checking accounts	80,442,661	60,001,482
Money market accounts	<u>63,392,219</u>	<u>64,133,288</u>
	<u>\$ 143,835,128</u>	<u>\$ 124,134,958</u>

Cash and cash equivalents were temporarily restricted as follows:

	June 30,	
	2016	2015
Construction	\$ 35,238,906	\$ 36,286,822
Debt service requirements for bonds	<u>28,142,035</u>	<u>27,835,224</u>
	63,380,941	64,122,046
Less current cash and cash equivalents – restricted	<u>24,923,115</u>	<u>20,654,813</u>
Cash and cash equivalents – noncurrent – restricted	<u>\$ 38,457,826</u>	<u>\$ 43,467,233</u>

### Note 4 – Concentration of Credit Risk

The School maintains its cash deposits at Wells Fargo, Public Funds Administration and, at June 30, 2016 and 2015, is insured up to \$384,743 and \$384,675, respectively, by the Federal Deposit Insurance Corporation. Investment securities held by Wells Fargo that had a carrying value at June 30, 2016 and 2015 of \$89,619,325 and \$68,306,518, 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, 2016 and 2015, assets held by Regions Bank were pledged as collateral as a whole for all Regions Bank fiduciary accounts to secure fiduciary funds held in trust.

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

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

### Note 5 – Investments

Investments measured at fair value consist of the following:

	<b>2016</b>	<b>June 30, 2015</b>
Certificate of deposit; maturing August 31, 2016; interest at 0.05%	\$ 134,743	\$ -
Certificate of deposit; maturing December 3, 2015; interest at 0.05%	<u>-</u>	<u>134,675</u>
	<u>\$ 134,743</u>	<u>\$ 134,675</u>

Interest income for the years ended June 30, 2016 and 2015 totaled \$68 and \$34, respectively.

The certificate of deposit with a maturity of December 3, 2015 was pledged as security for an irrevocable standby letter of credit for the benefit of the City of Weslaco. The letter of credit expired on December 3, 2015 and was renewed with a maturity date of August 31, 2016.

### Note 6 – Due From Government Agencies

Amounts due from government agencies consist of the following:

	<b>2016</b>	<b>June 30, 2015</b>
Texas Department of Education, Texas Education Agency (“TEA”)	\$ 32,671,260	\$ 27,902,664
United States Department of Education	1,887,286	1,852,064
United States Department of Education passed through TEA	525,413	703,796
United States Department of Agriculture passed through TEA	<u>323,895</u>	<u>356,499</u>
	<u>\$ 35,407,854</u>	<u>\$ 30,815,023</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

### Note 7 – Property and Equipment

Property and equipment consist of the following:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions and Transfers</u>	<u>June 30, 2016</u>
Land and improvements	\$ 31,468,749	\$ 6,721,245	\$ (458,865)	\$ 37,731,129
Buildings and improvements	198,021,263	250,174	46,309,466	244,580,903
Leasehold improvements	2,645,291	18,670	249,286	2,913,247
Vehicles	8,127,935	933,116	(126,792)	8,934,259
Furniture and equipment	5,046,714	1,044,608	1,064,196	7,155,518
Construction in progress	<u>70,352,310</u>	<u>91,861,559</u>	<u>(47,699,552)</u>	<u>114,514,317</u>
	315,662,262	100,829,372	(662,261)	415,829,373
Less accumulated depreciation and amortization	<u>33,917,042</u>	<u>12,338,214</u>	<u>(114,198)</u>	<u>46,141,058</u>
	<u>\$ 281,745,220</u>	<u>\$ 88,491,158</u>	<u>\$ (548,063)</u>	<u>\$ 369,688,315</u>

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 totaled \$12,338,214 and \$9,364,869, 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.

### Note 8 – Bonds Payable

Bonds payable consist of the following:

	<u>June 30, 2015</u>	<u>Retirements</u>	<u>Additions</u>	<u>June 30, 2016</u>
Series 2007 A bonds	\$ 3,480,000	\$ (820,000)	\$ -	\$ 2,660,000
Series 2009 A and B bonds	28,155,000	(530,000)	-	27,625,000
Series 2010 A and B bonds	32,450,000	(785,000)	-	31,665,000
Series 2010 Q bonds	7,555,000	-	-	7,555,000
Series 2011	26,025,000	(470,000)	-	25,555,000
Series 2012	58,630,000	(1,125,000)	-	57,505,000
Series 2013	63,025,000	(895,000)	-	62,130,000
Series 2014	90,600,000	-	-	90,600,000
Series 2015	<u>-</u>	<u>-</u>	<u>70,885,000</u>	<u>70,885,000</u>
	309,920,000	\$ (4,625,000)	\$ 70,885,000	376,180,000
Less current portion	<u>4,625,000</u>			<u>5,860,000</u>
Net long-term bonds payable	<u>\$ 305,295,000</u>			<u>\$ 370,320,000</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

Interest expense for the years ended June 30, 2016 and 2015 totaled \$18,792,810 and \$15,516,217, respectively. Capitalized interest for the years ended June 30, 2016 and 2015 totaled \$3,738,466 and \$4,254,929, respectively.

The Series 2010 Q Bonds tax credit interest subsidy for the years ended June 30, 2016 and 2015 totaled \$385,528 and \$384,491, 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 2007A 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.

### ***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 semiannually on February 15 and August 15.



# IDEA Public Schools, Inc.

## Notes to the Financial Statements

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.

### ***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, future debt service, and repayment of the multiple draw term notes payable to Regions Bank. The Series 2014 bonds mature serially each August 15, starting 2016 through 2044, with a stated interest rate ranging from 2% to 5%.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

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.

### **Series 2015 Bonds**

On October 1, 2015, the School issued \$70,885,000 of Education Revenue Bonds, Series 2015. Proceeds of the bonds were for construction, future debt service, and repayment of the multiple draw term notes payable to Regions Bank. The Series 2016 bonds mature serially each August 15, starting 2017 through 2045, with a stated interest rate ranging from 3% 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 2015 bonds. The Series 2015 bonds are subject to optional redemption in whole or in part on August 15, 2025.

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. Management believes the School was in compliance with this covenant and all other applicable covenants contained in the loan agreements during the years ended June 30, 2016 and 2015, respectively.

Debt service requirements for bonds payable for the year ended June 30, 2016 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Tax Credit Subsidy</u>	<u>Totals</u>
Year ending June 30,				
2017	\$ 5,860,000	\$ 19,477,885	\$ (414,769)	\$ 24,923,116
2018	7,240,000	19,222,980	(414,769)	26,048,211
2019	7,535,000	18,913,836	(414,769)	26,034,067
2020	7,855,000	18,571,383	(414,769)	26,011,614
2021	8,235,000	18,190,744	(414,769)	26,010,975
Thereafter	<u>339,455,000</u>	<u>234,073,370</u>	<u>(2,605,417)</u>	<u>570,922,953</u>
	<u>\$ 376,180,000</u>	<u>\$ 328,450,198</u>	<u>\$ (4,679,262)</u>	<u>\$ 699,950,936</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

### Note 9 – Notes Payable

Notes payable consist of the following:

	June 30,	
	2016	2015
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 semiannual payments of interest on the 15th day of February and August of each calendar year; beginning February 15, 2015 and continuing regularly and semiannually 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 management believes the School was in compliance as of June 30, 2016 and 2015.	\$ 7,369,510	\$ 2,324,154
A term note payable to Wells Fargo Equipment Finance, Inc. in the original amount of \$337,600; maturing July 26, 2018; requiring monthly payments of principal and interest, including interest at 3.15% through July 26, 2018. This note is secured by the corresponding buses acquired.	246,995	-
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.	966,852	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>
	9,583,357	4,696,754
Less current portion	<u>7,937,603</u>	<u>2,729,902</u>
	<u>\$ 1,645,754</u>	<u>\$ 1,966,852</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

The future minimum payments for notes payable as of June 30, 2016 are as follows:

Year ending June 30,	
2017	\$ 7,937,603
2018	986,248
2019	659,506
2020	-
2021	-
Thereafter	-
	\$ 9,583,357

Interest expense for the years ended June 30, 2016 and 2015 totaled \$120,920 and \$91,666, respectively. There was no capitalized interest for the years ended June 30, 2016 and 2015, respectively.

### Note 10 – Capital Leases Payable

Capital leases payable consist of the following:

	June 30,	
	2016	2015
<b>Buildings</b>		
A multiple draw capital lease payable to Regions Commercial Equipment, LLC in the original amount equal to or less than \$2,913,104, during the draw period requiring monthly payments of interest at LIBOR plus 1.67% through the draw period ending September 30, 2016; secured by the corresponding portable buildings acquired.	\$ 617,611	\$ -
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.	114,428	242,074

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

	June 30,	
	2016	2015
<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.	99,438	189,270
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.	105,331	200,486
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.	76,085	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.	44,383	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.	191,799	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.	54,685	100,521
	<u>\$ 1,303,760</u>	<u>\$ 1,306,344</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

The future minimum lease payments under the capital leases and the net present value of future minimum lease payments as of June 30, 2016 are as follows:

Year ending June 30,	
2017	\$ 683,633
2018	138,050
2019	69,005
2020	69,005
2021	69,005
Thereafter	<u>358,771</u>
Total future minimum lease payments	1,387,469
Less amount representing interest	<u>83,709</u>
Present value of future minimum lease payments	1,303,760
Less current portion	<u>659,414</u>
Net long-term capital leases payable	<u><u>\$ 644,346</u></u>

Interest expense for the years ended June 30, 2016 and 2015 totaled \$32,383 and \$48,287, respectively.

### Note 11 – Long-Term Debt

Combined maturities for all long-term debt principal at June 30, 2016 are as follows:

	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Capital Leases Payable</u>	<u>Total Maturities</u>
Year ending June 30,				
2017	\$ 5,860,000	\$ 7,937,603	\$ 659,414	\$ 14,457,017
2018	7,240,000	986,248	126,128	8,352,376
2019	7,535,000	659,506	58,477	8,252,983
2020	7,855,000	-	59,733	7,914,733
2021	8,235,000	-	61,016	8,296,016
Thereafter	<u>339,455,000</u>	<u>-</u>	<u>338,992</u>	<u>339,793,992</u>
	<u><u>\$ 376,180,000</u></u>	<u><u>\$ 9,583,357</u></u>	<u><u>\$ 1,303,760</u></u>	<u><u>\$ 387,067,117</u></u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

### Note 12 – Deferred Revenues

Deferred revenues consist of the following:

	June 30,	
	2016	2015
City Education Partners	\$ 2,111,009	\$ -
Louis Calder Foundation	100,000	-
Child Nutrition Program	64,015	-
KNAPP Community Care Foundation	6,160	-
Choose to Succeed	1,316,890	1,022,500
Harvey Najim Foundation	291,272	311,462
George W. Brakenridge Foundation	378,942	200,000
Ewing Halsell Foundation	789,452	1,092,980
Charter School Growth Fund	22,048	1,371,465
KLE Foundation	1,040,213	278,000
Mays Family Foundation	484,479	1,000,000
Karen and Tom Hixon Fund	100,105	98,247
H-E-B Healthy Campus Grant	-	5,555
	<u>\$ 6,704,585</u>	<u>\$ 5,380,209</u>

### Note 13 – Conditional Contributions

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

	June 30,	
	2016	2015
City Education Partners	\$ 2,310,924	\$ -
Louis Calder Foundation	200,000	-
Anonymous Grant	250,000	-
KNAPP Community Care Foundation	71,875	-
George W. Brakenridge Foundation	300,000	600,000
Ewing Halsell Foundation	2,500,000	4,000,000
KLE Foundation	16,530,400	1,654,400
Karen and Tom Hixon Foundation	203,189	300,000
Choose to Succeed	-	612,213
Harvey Najim Foundation	-	200,000
	<u>\$ 22,366,388</u>	<u>\$ 7,366,613</u>

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

The future payments under the conditional promises to give from philanthropic organizations at June 30, 2016 are as follows:

Year ending June 30,	
2017	\$ 5,843,948
2018	5,415,040
2019	3,107,400
2020	4,000,000
2021	3,000,000
Thereafter	<u>1,000,000</u>
	\$ <u><u>22,366,388</u></u>

Payment is contingent upon the School meeting certain criteria specified by the donors. As the condition for payment from the donors has not been met as of June 30, 2016, 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>2016</u>	<u>2015</u>
Child Nutrition Program	\$ 7,962,714	\$ 5,218,345
Summer Feeding Program	1,021	1,021
Race to the Top	53,086	291,217
Foundation School Program	87,481,431	68,981,710
Campus Activity Funds	<u>984,709</u>	<u>958,943</u>
	<u>\$ 96,482,961</u>	<u>\$ 75,451,236</u>



# IDEA Public Schools, Inc.

## Notes to the Financial Statements

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

	Years Ended June 30,	
	2016	2015
Philanthropic Grants	\$ 5,209,807	\$ 4,358,269
Campus Activity Funds	3,257,413	2,600,131
Foundation School Program	191,820,633	152,589,228
Instructional Materials Allotment	2,379,963	1,770,084
Other State Programs	1,376,045	649,844
Federal Programs	28,369,451	23,709,654
Child Nutrition Program	14,959,764	11,765,467
	<u>\$ 247,373,076</u>	<u>\$ 197,442,677</u>

### Note 15 – Pension Plan Obligations

#### *Plan Description*

The School participates in the Teacher Retirement System of Texas (“TRS”), a public employee retirement system. TRS is a cost sharing, multiple-employer defined benefit plan with one exception: all risks and costs are not shared by the School, but are the liability of the state of Texas. TRS provides service retirement and disability retirement benefits and death benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in the Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teachers Retirement System of Texas, which is subject to amendment by the Texas 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.

Charter schools are legally separate entities from the state and each other. Assets contributed by one charter or independent school district (“ISD”) may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement.

#### *Funding Policy*

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

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

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' 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. Under provisions in Texas state law, plan members are required to contribute 7.2% and 6.7% of their annual covered salary for each of the years ended June 30, 2016 and 2015, respectively. The state's contribution rate as a nonemployer contributing entity was 6.8% for the years ended June 30, 2016 and 2015. The School's employees' contributions to TRS for the years ended June 30, 2016 and 2015 totaled \$9,328,579 and \$6,770,352, respectively, equal to the required contributions for each year. There have been no changes that would affect the comparison from year to year.

Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum were contributed at a rate of 6.8% totaling \$860,713 and \$671,026 for the years ended June 30, 2016 and 2015, respectively. The School's contributions into this plan do not represent more than 5.0% of the total contributions to the plan. The School's participation in the TRS plan for the year ended June 30, 2016 is outlined in the table below (ABO refers to the accumulation benefit obligation):

<u>Pension Fund</u>	<u>Total Plan Assets 2015</u>	<u>ABO 2015</u>	<u>Percent Funded</u>	<u>Surcharge Imposed</u>
TRS	\$ 149,780,061,824	\$ 163,887,375,172	78.43%	No

### **Supplemental Retirement Plans**

The School offers a voluntary 403(b) plan for all employees to make elective contributions to the plan. The School is not required to match any employee contributions and made no matching contributions for the years ended June 30, 2016 and 2015.

The School has adopted an employer paid 403(b) plan for eligible employees in top management positions to make elective contributions to this plan. The School provides a 1:1 match on employee contributions up to 10% of the employee's annual salary. Employer contributions to the plan totaled \$111,367 and \$114,263 for the years ended June 30, 2016 and 2015, respectively.

# IDEA Public Schools, Inc.

## Notes to the Financial Statements

### 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,	
2017	\$ 1,430,038
2018	1,234,823
2019	895,511
2020	425,946
2121	86,400
Thereafter	<u>165,600</u>
	<u>\$ 4,238,318</u>

Rent expense for the years ended June 30, 2016 and 2015 totaled \$2,249,308 and \$2,150,237, 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 10, 2016, the Board of Directors authorized the issuance of approximately \$93,850,000 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

At June 30, 2016, the School had the following construction commitments:

	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Remaining Commitment</u>
Riverview Campus (Phase II)	\$ 4,580,462	\$ -	\$ 4,580,462
Tres Lagos Campus	10,651,808	-	10,651,808
Rundberg Campus (Phase II)	6,112,133	-	6,112,133
Eastside Campus (Phase II)	6,242,749	-	6,242,749
Rio Grande City Campus	11,149,102	-	11,149,102
Bluff Springs Campus	11,553,728	6,037,439	5,516,289
Judson Campus	11,498,000	6,296,911	5,201,089
Monterrey Park Campus (Phase II)	5,672,800	5,006,899	665,901
North Mission Campus	10,363,275	7,696,550	2,666,725
Rundberg Campus (Phase I)	9,046,463	8,744,936	301,527
Carver Campus (Phase II)	3,438,544	1,888,937	1,549,607
Mays Campus	10,891,935	8,943,254	1,948,681
Eastside Campus (Phase I)	2,032,520	1,823,359	209,161
Walzem Campus (Phase II)	4,785,000	4,250,048	534,952
Weslaco Pike Campus (Phase II)	4,431,520	3,145,603	1,285,917
Headquarters	10,065,609	4,086,427	5,979,182
	<u>\$ 122,515,648</u>	<u>\$ 57,920,363</u>	<u>\$ 64,595,285</u>

### Note 18 – Health Insurance

Employees of the School were covered by a health insurance plan during the years ended June 30, 2016 and 2015. The School contributed a monthly portion depending on the employees' health insurance plan rate. The School contributed \$341-\$600 and \$325-\$410 for the years ended June 30, 2016 and 2015, respectively. 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:

	<b>June 30,</b>	
	<u>2016</u>	<u>2015</u>
Payments	\$ 618,811	\$ 193,649
Accounts payable	64,755	79,753
	<u>\$ 683,566</u>	<u>\$ 273,402</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, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>Revenues and Other Support</b>				
Local support:				
5740 Other revenues from local sources	\$ 764,002	12,571,967	\$ 13,335,969	\$ 10,923,553
5750 Other revenues from other activities	-	953,077	953,077	894,681
Total local support	<u>764,002</u>	<u>13,525,044</u>	<u>14,289,046</u>	<u>11,818,234</u>
State program revenues:				
5810 Foundation School Program Act revenues	-	205,329,975	205,329,975	161,605,689
5820 State program revenues distributed by the Texas Education Agency	-	3,786,555	3,786,555	2,412,471
5830 State revenues – other agencies	-	20,664	20,664	42,511
Total state program revenues	<u>-</u>	<u>209,137,194</u>	<u>209,137,194</u>	<u>164,060,671</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	29,256,484	29,256,484	23,625,502
5930 Federal revenues distributed by other state of Texas government agencies	-	911,179	911,179	572,321
5940 Federal revenues distributed directly from the federal government	-	15,574,900	15,574,900	12,991,185
Total federal program revenues	<u>-</u>	<u>45,742,563</u>	<u>45,742,563</u>	<u>37,189,008</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>247,373,076</u>	<u>(247,373,076)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>248,137,078</u>	<u>21,031,725</u>	<u>269,168,803</u>	<u>213,067,913</u>
<b>Expenses</b>				
11 Instruction	110,204,220	-	110,204,220	83,630,617
12 Instructional resources and media services	1,632,596	-	1,632,596	1,963,604
13 Curriculum and instructional staff development	3,362,737	-	3,362,737	3,049,161
21 Instructional leadership	6,551,044	-	6,551,044	5,795,855
23 School leadership	24,523,434	-	24,523,434	18,218,686
31 Guidance, counseling, and evaluation services	11,481,211	-	11,481,211	7,498,203
32 Social work services	4,273	-	4,273	-
33 Health services	1,021,906	-	1,021,906	801,875
34 Student (pupil) transportation	10,263,539	-	10,263,539	8,240,516
35 Food services	15,087,824	-	15,087,824	12,193,184
36 Cocurricular/extracurricular activities	2,436,362	-	2,436,362	1,877,906
41 General administration	13,487,085	-	13,487,085	12,359,754
51 Plant maintenance and operations	25,025,418	-	25,025,418	20,791,549
52 Security and monitoring services	1,044,002	-	1,044,002	796,588
53 Data processing services	5,527,066	-	5,527,066	4,765,071
61 Community services	415,105	-	415,105	412,481
71 Debt service	15,247,506	-	15,247,506	11,601,717
81 Fundraising	1,394,453	-	1,394,453	653,324
Total expenses	<u>248,709,781</u>	<u>-</u>	<u>248,709,781</u>	<u>194,650,091</u>
Gain on disposal of assets	240,767	-	240,767	6,667
Loss on disposal of assets	(128)	-	(128)	-
Loss on extinguishment of debt	-	-	-	(4,293,652)
Change in net assets	<u>(332,064)</u>	<u>21,031,725</u>	<u>20,699,661</u>	<u>14,130,837</u>
Net assets at beginning of year	<u>772,015</u>	<u>75,451,236</u>	<u>76,223,251</u>	<u>62,092,414</u>
Net assets at end of year	<u>\$ 439,951</u>	<u>\$ 96,482,961</u>	<u>\$ 96,922,912</u>	<u>\$ 76,223,251</u>

# IDEA Public Schools, Inc.

## Exhibit C-1

### Schedules of Expenses for Individual Charter School

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Expenses</b>		
6100 Payroll costs	\$ 147,929,701	\$ 109,251,027
6200 Professional and contracted services	27,471,613	23,815,007
6300 Supplies and materials	29,319,962	28,435,995
6400 Other operating costs	28,741,000	21,546,346
6500 Debt	<u>15,247,506</u>	<u>11,601,716</u>
Total expenses	<u>\$ 248,709,782</u>	<u>\$ 194,650,091</u>



# IDEA Public Schools, Inc.

## Exhibit D-1

### Schedule of Capital Assets for Individual Charter School

June 30, 2016

Asset Classification	Ownership Interest		
	Local	State	Federal
<b>Property and Equipment</b>			
1510 Land and improvements	\$ -	\$ 37,731,129	\$ -
1520 Building and improvements	-	243,588,343	14,500
1531 Vehicles	-	7,301,207	151,052
1539 Furniture and equipment	-	3,661,646	3,457,633
Capital leases:			
1542 Building Improvements	-	2,913,247	-
1551 Building	-	978,060	-
1558 Vehicles	-	1,482,000	-
1559 Equipment	-	36,239	-
1580 Construction in progress	-	111,825,613	2,688,704
	<u>\$ -</u>	<u>\$ 409,517,484</u>	<u>\$ 6,311,889</u>

# IDEA Public Schools, Inc.

## Exhibit E-1

### Budgetary Comparison Schedule for Individual Charter School

Year Ended June 30, 2016

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 12,529,888	\$ 13,013,057	\$ 13,335,969	\$ 322,912
5750 Other revenues from other activities	1,047,584	968,744	953,077	(15,667)
Total local support	13,577,472	13,981,801	14,289,046	307,245
State program revenues:				
5810 Foundation School Program Act revenues	189,950,849	193,455,750	205,329,975	11,874,225
5820 State program revenues distributed by the Texas Education Agency	3,115,956	3,749,421	3,786,555	37,134
5830 State revenues – other agencies	-	19,008	20,664	1,656
Total state program revenues	193,066,805	197,224,179	209,137,194	11,913,015
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	28,041,754	29,015,955	29,256,484	240,529
5930 Federal revenues distributed by other state of Texas government agencies	600,000	860,000	911,179	51,179
5940 Federal revenues distributed directly from the federal government	17,077,677	15,741,446	15,574,900	(166,546)
Total federal program revenues	45,719,431	45,617,401	45,742,563	125,162
Total revenues	252,363,708	256,823,381	269,168,803	12,345,422
<b>Expenses</b>				
11 Instruction	102,898,514	107,204,195	110,204,220	(3,000,025)
12 Instructional resources and media services	1,705,438	1,712,029	1,632,596	79,433
13 Curriculum and instructional staff development	2,858,784	3,668,791	3,362,737	306,054
21 Instructional leadership	7,288,514	6,666,108	6,551,044	115,064
23 School leadership	23,974,143	24,306,678	24,523,434	(216,756)
31 Guidance, counseling, and evaluation services	12,443,332	10,548,631	11,481,211	(932,580)
32 Social work services	-	4,660	4,273	387
33 Health services	1,314,611	989,338	1,021,906	(32,568)
34 Student (pupil) transportation	10,281,356	9,973,994	10,263,539	(289,545)
35 Food services	15,087,228	15,553,255	15,087,824	465,431
36 Cocurricular/extracurricular activities	1,874,795	2,423,485	2,436,362	(12,877)
41 General administration	12,147,878	12,629,587	13,487,085	(857,498)
51 Plant maintenance and operations	26,329,999	26,267,452	25,025,418	1,242,034
52 Security and monitoring services	856,143	988,402	1,044,002	(55,600)
53 Data processing services	6,578,496	5,880,690	5,527,066	353,624
61 Community services	291,206	423,356	415,105	8,251
71 Debt service	16,235,094	15,987,268	15,247,506	739,762
81 Fundraising	1,245,266	1,303,883	1,394,453	(90,570)
Total expenses	243,410,797	246,531,802	248,709,781	(2,177,979)
Gain on disposal of assets	-	-	240,767	240,767
Loss on disposal of assets	-	-	(128)	(128)
Change in net assets	8,952,911	10,291,579	20,699,661	10,408,082
Net assets at beginning of year	62,092,414	62,092,414	76,223,251	14,130,837
Net assets at end of year	\$ 71,045,325	\$ 72,383,993	\$ 96,922,912	\$ 24,538,919

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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, 2016, 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 12, 2016.

#### ***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 12, 2016



# Padgett Stratemann

## Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by the Uniform Guidance

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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-001, 2016-002, and 2016-003. 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 the Uniform Guidance, 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material

weaknesses and significant deficiencies. 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 items 2016-001, 2016-002, and 2016-003 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

San Antonio, Texas  
August 12, 2016

# IDEA Public Schools, Inc.

## Exhibit F-1

### Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

#### 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 the Uniform Guidance

      X       Yes                      No

Identification of major programs:

#### CFDA Number(s)

84.010A  
84.282M  
84.334A

#### Name of Federal Program

ESEA Title I – Part A  
ESEA Title V – Part B Charter Schools  
HEA Title IV – Part A GEAR-UP – Connect2College

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

\$1,344,941

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, 2016

#### II – Financial Statement Finding

None noted.

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

##### Finding 2016-001: Special Tests and Provisions – Highly Qualified Teacher and Paraprofessionals

Federal Program: Title I, Part A

CFDA Number: 84.010A

Pass-Through Entity Identifying Numbers: 16610101108807/16610112108807000

United States Department of Education

Type of Finding: Significant Deficiency/Noncompliance

*Criteria:* Paraprofessionals who work in a program supported with Title I, Part A funds must meet certain qualification requirements. Paraprofessionals are individuals providing instructional support in either a targeted assistance school or in a schoolwide program school. Highly qualified paraprofessionals must have an associate’s degree, at least two years of college, or demonstrate competency in the core academic areas in which they teach.

*Condition:* During testing, we noted 2 paraprofessionals (out of 40 highly qualified teachers and paraprofessionals) did not meet the highly qualified education requirement that were charged to the Title I, Part A program.

Two additional paraprofessionals selected for testing received a “Paraprofessional Assessment of Knowledge and Skills” during the 2015/2016 school year. After completion of the assessment, it was determined that they were highly qualified; however, this assessment was not performed until later in the year. The costs associated with their wages prior to the assessment are included in questioned costs since they were not in compliance for the entire year.

To determine the extent of this issue, the School prepared a schedule of all paraprofessionals at a schoolwide school to redetermine if they were deemed highly qualified based on the Title I, Part A requirements. Upon review of this schedule, 34 individuals were determined to be not in compliance with this requirement out of 340 paraprofessionals at schoolwide schools. An additional 10 highly qualified paraprofessionals were selected and no additional exceptions were noted. Additionally, the School has 996 teachers at schoolwide schools, and no exceptions were noted during our original testing.

*Questioned Costs:* Known questioned costs are \$98,453 related to the paraprofessionals charged to the Title I, Part A program, as identified in the first two paragraphs of the condition section. Of the \$98,453 in questioned costs, \$45,973 was later determined to be highly qualified, as identified in the second paragraph of the condition.

# IDEA Public Schools, Inc.

## Exhibit F-1

### Schedule of Findings and Questioned Costs – Continued

Year Ended June 30, 2016

*Possible Asserted Effect:* The School did not have adequate controls in place to fully document compliance with the highly qualified teacher and paraprofessional requirement.

*Recommendation:* We recommend the School enhance its internal controls over monitoring of its paraprofessionals who provide instructional support to ensure the paraprofessionals meet the highly qualified requirement. Documentation of the highly qualified requirement should be obtained and maintained in the employee file. Missing documentation should be obtained or the School should require the applicable employee obtain the necessary highly qualified documentation in order to be in compliance with this requirement.

*Views of Responsible Officials:* The School's policy is to only hire highly qualified teachers and paraprofessionals. The vast majority of the School's paraprofessionals have documentation supporting the highly qualified requirement, such as transcripts or PAKS. Of the 34 individuals identified in finding 2016-001, 16 had PAKS documenting them as highly qualified later in the school year. The School is still researching the remaining 18 individuals for documentation supporting the highly qualified requirement. However, based on the School's normal observation and performance review process, the School believes they would meet the highly qualified requirement. The School will develop a formalized checklist to document compliance with the highly qualified requirement for teachers and paraprofessionals, which will be maintained in the employee file along with supporting documentation.

*Responsible Person:* Title I, Part A Grant Manager

*Implementation Date:* The School expects to have this process completed no later than October 31, 2016.

#### **Finding 2016-002: Activities Allowed or Unallowed/Allowable Costs**

Federal Program: Title I, Part A

CFDA Number: 84.010A

Pass-Through Entity Identifying Numbers: 16610101108807/16610112108807000

United States Department of Education

Type of Finding: Significant Deficiency/Noncompliance

*Criteria:* Salaries charged to federal programs must comply with the Uniform Guidance included in Section 200.430.

*Condition:* During testing of expenditures charged to this program it was noted 3 out of 17 employee salaries were improperly charged to this program. The School subsequently discovered this error for two employees and reversed these expenditures before the end of the fiscal year and netted with subsequent draw-down requests in the amount of \$23,547. The other employee expenditures were not reversed until after the end of the fiscal year and is reflected as a due to state in the June 30, 2016 financial statements in the amount of \$18,490.

# IDEA Public Schools, Inc.

## Exhibit F-1

### Schedule of Findings and Questioned Costs – Continued

Year Ended June 30, 2016

*Questioned Costs:* Known and likely questioned costs are zero, since the total amount improperly charged to the program were subsequently reversed and netted with future draw-down requests or is reflected as due to state. The amount of potential interest on these funds based on the federal funds rate at the time would not be significant, and such amount is less than the reportable questioned costs threshold of \$20,000.

*Possible Asserted Effect:* The School improperly charged certain employees' salaries to this program.

*Recommendation:* We recommend the School enhance its process of monitoring employees charged to the program to ensure only allowable employees included.

*Views of Responsible Officials:* Management concurs with the recommendation. The School has implemented procedures to ensure only allowable employee salaries are charged to federal programs in accordance with the Uniform Guidance included in Section 200.430.

*Responsible Person:* Title I, Part A Grant Manager

*Implementation Date:* Completed

#### **Finding 2016-003: Matching**

Federal Program: HEA Title IV – Part A GEAR-UP – Connect2College

CFDA Number: 84.334A

Pass-Through Entity Identifying Numbers: 84.334A

United States Department of Education

Type of Finding: Significant Deficiency/Noncompliance

*Criteria:* In accordance with the approved grant agreement, the School is required to match this grant with state, local, institutional, or private funds, which may be provided in cash or in-kind.

*Condition:* During testing of matching reported to the grantor, we noted several items totaling \$20,880 which were reported as matching improperly to the grantor. The School subsequently reviewed its matching documentation and removed the improper items and revised its matching documentation. Our subsequent review of the revised matching report did not detect any additional improper items. Additionally, during testing, we noted matching costs totaling \$173,850 related to tutors and extra duty pay was reported as matching; however, these costs were not supported by time sheets to support any allocation to this program.

*Questioned Costs:* Known and likely questioned costs are zero.

*Possible Asserted Effect:* The School improperly reported matching amount in this program and did not have adequate controls to detect these errors in a timely manner.

# **IDEA Public Schools, Inc.**

## **Exhibit F-1**

### **Schedule of Findings and Questioned Costs – Continued**

Year Ended June 30, 2016

*Recommendation:* We recommend the School strengthen its controls over monitoring and tracking of matching requirements for this grant.

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

*Responsible Person:* GEAR-UP Grant Manager

*Implementation Date:* Completed

# IDEA Public Schools, Inc.

## Exhibit G-1

### Corrective Action Plan

Year Ended June 30, 2016

#### **Finding 2016-001: Special Tests and Provisions – Highly Qualified Teacher and Paraprofessionals**

Federal Program: Title I, Part A

CFDA Number: 84.010A

The School's policy is to only hire highly qualified teachers and paraprofessionals. The vast majority of the School's paraprofessionals have documentation supporting the highly qualified requirement, such as transcripts or PAKS. Of the 34 individuals identified in finding 2016-001, 16 had PAKS documenting them as highly qualified later in the school year. The School is still researching the remaining 18 individuals for documentation supporting the highly qualified requirement. However, based on the School's normal observation and performance review process, the School believes they would meet the highly qualified requirement. The School will develop a formalized checklist to document compliance with the highly qualified requirement for teachers and paraprofessionals, which will be maintained in the employee file along with supporting documentation.

#### **Finding 2016-002: Activities Allowed or Unallowed/Allowable Costs**

Federal Program: Title I, Part A

CFDA Number: 84.010A

Management concurs with the recommendation. The School has implemented procedures to ensure only allowable employee salaries are charged to federal programs in accordance with the Uniform Guidance included in Section 200.430.

#### **Finding 2016-003: Matching**

Federal Program: HEA Title IV – Part A GEAR-UP – Connect2College

CFDA Number: 84.334A

Management concurs with the recommendation. The School has implemented procedures to ensure matching requirements are being met in accordance with the grant



# **IDEA Public Schools, Inc.**

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

Year Ended June 30, 2016

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

Federal Program: National School Breakfast and Lunch Program Cluster  
CFDA Number: 10.553 and 10.555

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

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

Federal Program: Twenty-First Century Community Learning Centers  
CFDA Number: 84.287C

*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, 2016

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	\$ 377,947
ESEA Title V – Part B Charter Schools	84.282M	U282M140009	3,414,463
HEA Title IV – Part A GEAR-UP – Connect2College	84.334A	P334A120084	2,145,868
ARRA ESEA Race To The Top – District Grants	84.416A	B416A130117	8,945,424
ESEA Title V – Part D Fund for the Improvement of Education	84.215F	S215F130324	<u>691,198</u>
Total Direct Programs			<u>15,574,900</u>
Passed Through State Department of Education:			
ESEA Title I – Part A	84.010A	16610101108807	4,990,360
ESEA Title I – Part A – Priority and Focus School	84.010A	16610112108807000	28,975
ESEA Title II – Part A Teacher/Principal Training	84.367A	16694501108807	1,346,661
ESEA Title III – Part A Language Acquisition	84.365A	15671001108807	105,594
ESEA Title III – Part A Language Acquisition	84.365A	16671001108807	424,574
IDEA B Formula – Special Education	84.027A	156600011088076600	463,004
IDEA B Formula – Special Education	84.027A	166600011088076600	2,242,450
IDEA B Preschool	84.173A	H173A150004	1,805
Twenty-First Century Community Learning Centers	84.287C	146950217110004	173,480
Twenty-First Century Community Learning Centers	84.287C	166950197110016	2,199,997
School Improvement Grants	84.377A	146107107110007	579,519
Advanced Placement Program	84.330B	S330B140031	<u>31,460</u>
Total Passed Through State Department of Education			<u>12,587,879</u>
Total United States Department of Education			<u>28,162,779</u>
<u>United States Department of Agriculture:</u>			
Passed Through State Department of Education:			
National School Breakfast Program	10.553	71401401	1,118,626
National School Breakfast Program	10.553	71401501	4,557,519
National School Lunch Program	10.555	71301401	2,100,473
National School Lunch Program	10.555	71301501	8,398,135
USDA Commodities	10.555	71301501	<u>493,850</u>
Total Passed Through State Department of Education			<u>16,668,603</u>
Total United States Department of Agriculture			<u>16,668,603</u>
Total Expenditures of Federal Awards			<u>\$ 44,831,382</u>

# IDEA Public Schools, Inc.

## Exhibit H-1

### Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

#### **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, 2016. The information in the Schedule is presented in accordance with the requirements of the Uniform Guidance. 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*, or the Uniform Guidance 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.