

draft

International Leadership of Texas, Inc.

**Consolidated Financial Statements with Supplemental Information
and Compliance Reports
June 30, 2021 and 2020**

International Leadership of Texas, Inc.
Contents

Certificate of Board	1
Independent Auditors' Report	2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Supplemental Information:	24
Consolidating Statement of Financial Position	25
Consolidating Statement of Activities	26
Supplemental Information Required by TEA:	28
Statement of Financial Position - International Leadership of Texas	29
Statement of Activities - International Leadership of Texas	30
Statement of Cash Flows - International Leadership of Texas	31
Schedule of Expenses - International Leadership of Texas	32
Schedule of Capital Assets - International Leadership of Texas	33
Budgetary Comparison Schedule - International Leadership of Texas	34
Education Programs Schedule – International Leadership of Texas	35
Schedule of Real Property Ownership Interest - International Leadership of Texas	36
Schedule of Related Party Transactions – International Leadership of Texas	37
Schedule of Related Party Compensation and Benefits – International Leadership of Texas	38

International Leadership of Texas, Inc.
Contents

Compliance Reports:	39
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	42
Schedule of Findings and Questioned Costs	45
Schedule of Expenditures of Federal Awards	48
Notes to Schedule of Expenditures of Federal Awards	49

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International Leadership of Texas, Inc.
Federal Employer Identification No. 27-4549127
County District No. 057-848
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of International Leadership of Texas, Inc. was reviewed and (check one) ___ approved ___ disapproved for the year ended June 30, 2021, at a meeting of the governing body of the charter holder on the 21st day of October, 2021.

Signature of Board Secretary

Signature of Board President

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Independent Auditors' Report

To the Board of Directors of
International Leadership of Texas, Inc.

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of International Leadership of Texas, Inc. and affiliate (a nonprofit Organization), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards 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 International Leadership of Texas – Global were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of International Leadership of Texas, Inc. and affiliate as of June 30, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2021 on our consideration of International Leadership of Texas, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 International Leadership of Texas, Inc.'s internal control over financial reporting and compliance.

A Limited Liability Partnership

Arlington, Texas
October 21, 2021

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International Leadership of Texas, Inc.
Consolidated Statements of Financial Position
June 30, 2021 and 2020

Assets		
	2021	2020
Current assets:		
Cash and cash equivalents	\$ 72,000,602	\$ 58,456,344
Restricted cash and cash equivalents	64,796,498	56,469,244
Due from government agencies	32,030,542	27,413,333
Accounts receivable	-	6,500
Other current assets	10,013	194,376
Total current assets	168,837,655	142,539,797
Property and equipment, net	477,805,102	440,263,611
Total assets	\$ 646,642,757	\$ 582,803,408
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 10,356,549	\$ 1,059,571
Accrued payroll	14,505,092	14,014,967
Accrued interest	12,016,232	13,365,876
Student activity funds	760,730	763,207
Deferred revenue	415,455	564,486
Other liabilities	2,897,749	649,062
Current maturities of finance lease liability	118,223	146,446
Current maturities of long-term debt	8,295,182	5,831,373
Total current liabilities	49,365,212	36,394,988
Long-term liabilities:		
Finance lease liability	39,632	157,855
Long-term debt, net of debt issuance costs	556,751,993	527,561,232
Total liabilities	606,156,837	564,114,075
Net assets:		
Without donor restrictions	2,926,915	2,396,423
With donor restrictions	37,559,005	16,292,910
Total net assets	40,485,920	18,689,333
Total liabilities and net assets	\$ 646,642,757	\$ 582,803,408

See notes to consolidated financial statements.

International Leadership of Texas, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Local support:			
SSA - Local revenues from member districts	\$ 984,820	\$ -	\$ 984,820
Interest, dividends, gains, and losses	68,491	-	68,491
Rent	9,500	-	9,500
Foundations, other non-profit organizations, gifts, and bequests	15,811	-	15,811
Other revenues from local sources	482,851	-	482,851
Food service activity	(139,242)	-	(139,242)
Total local support	1,422,231	-	1,422,231
State program revenues:			
Per capita apportionment	-	9,146,435	9,146,435
Foundation school program act revenue	-	194,075,741	194,075,741
State program revenue distributed by TEA	-	4,722,170	4,722,170
Total state program revenues	-	207,944,346	207,944,346
Federal program revenue:			
National school breakfast and lunch program	-	717,912	717,912
Federal program revenue distributed by TEA	-	18,360,489	18,360,489
Federal revenues distributed by other State of Texas agencies	-	11,354,007	11,354,007
Total federal program revenue	-	30,432,408	30,432,408
Net assets released from restrictions-			
Restrictions satisfied by payments	217,110,659	(217,110,659)	-
Total revenue and support	218,532,890	21,266,095	239,798,985
Expenses:			
Instruction	100,389,510	-	100,389,510
Instruction resources and media	1,033,326	-	1,033,326
Curriculum and instructional staff development	6,962,181	-	6,962,181
Instructional leadership	1,944,695	-	1,944,695
School leadership	9,970,527	-	9,970,527
Guidance, counseling and evaluation services	5,501,444	-	5,501,444
Social work services	76,343	-	76,343
Health services	1,845,363	-	1,845,363
Student transportation	1,213,837	-	1,213,837
Food services	11,498,105	-	11,498,105
Extracurricular activities	1,584,470	-	1,584,470
General administration	6,443,704	-	6,443,704
Facilities maintenance and operations	27,084,823	-	27,084,823
Security and monitoring services	2,432,040	-	2,432,040
Data processing services	7,067,364	-	7,067,364
Community services	2,818,419	-	2,818,419
Debt service	30,040,539	-	30,040,539
Fundraising	127,677	-	127,677
Total expenses	218,034,367	-	218,034,367
Excess of revenues over expenses from operations	498,523	21,266,095	21,764,618
Non-operating activities:			
Other gain	31,969	-	31,969
Total non-operating activities	31,969	-	31,969
Change in net assets	530,492	21,266,095	21,796,587
Net assets at beginning of year	2,396,423	16,292,910	18,689,333
Net assets at end year	\$ 2,926,915	\$ 37,559,005	\$ 40,485,920

See notes to consolidated financial statements.

International Leadership of Texas, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Local support:			
SSA - Local revenues from member districts	\$ 2,131,394	\$ -	\$ 2,131,394
Interest, dividends, gains, and losses	629,581	-	629,581
Foundations, other non-profit organizations, gifts, and bequests	109,648	-	109,648
Other revenues from local sources	867,223	-	867,223
Food service activity	1,103,931	-	1,103,931
Total local support	4,841,777	-	4,841,777
State program revenues:			
Per capita apportionment	-	5,640,996	5,640,996
Foundation school program act revenue	-	180,681,158	180,681,158
State program revenue distributed by TEA	-	1,653,550	1,653,550
Total state program revenues	-	187,975,704	187,975,704
Federal program revenue:			
National school breakfast and lunch program	-	7,733,983	7,733,983
Federal program revenue distributed by TEA	-	6,251,270	6,251,270
Federal revenues distributed by other State of Texas agencies	-	6,906,250	6,906,250
Total federal program revenue	-	20,891,503	20,891,503
Net assets released from restrictions-			
Restrictions satisfied by payments	196,341,174	(196,341,174)	-
Total revenue and support	201,182,951	12,526,033	213,708,984
Expenses:			
Instruction	92,334,474	-	92,334,474
Instruction resources and media	883,303	-	883,303
Curriculum and instructional staff development	6,638,021	-	6,638,021
Instructional leadership	1,320,821	-	1,320,821
School leadership	9,408,778	-	9,408,778
Guidance, counseling and evaluation services	4,871,333	-	4,871,333
Social work services	88,658	-	88,658
Health services	1,429,905	-	1,429,905
Student transportation	1,229,552	-	1,229,552
Food services	10,102,452	-	10,102,452
Extracurricular activities	1,338,815	-	1,338,815
General administration	6,794,713	-	6,794,713
Facilities maintenance and operations	25,010,072	-	25,010,072
Security and monitoring services	1,487,898	-	1,487,898
Data processing services	5,202,734	-	5,202,734
Community services	1,617,074	-	1,617,074
Debt service	27,901,366	-	27,901,366
Fundraising	6,360	-	6,360
Total expenses	197,666,329	-	197,666,329
Excess of revenues over expenses from operations	3,516,622	12,526,033	16,042,655
Non-operating activities:			
Other gain	220,033	-	220,033
Total non-operating activities	220,033	-	220,033
Change in net assets	3,736,655	12,526,033	16,262,688
Net assets at beginning of year	(1,340,232)	3,766,877	2,426,645
Net assets at end year	\$ 2,396,423	\$ 16,292,910	\$ 18,689,333

See notes to consolidated financial statements.

International Leadership of Texas, Inc.
Consolidated Statements Cash Flows
Year Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 21,796,587	\$ 16,262,688
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	14,413,222	13,800,184
Amortization of bond discount	(20,253)	(361,708)
Amortization of debt issuance costs	431,551	448,335
PPP loan forgiveness	(67,478)	
Changes in assets and liabilities:		
Due from government agencies	(4,617,209)	124,639
Accounts receivable	6,500	97,028
Other receivable	-	116,779
Other current assets	184,363	52,653
Accounts payable	4,352,504	(1,304,066)
Accrued payroll	490,125	1,325,253
Accrued interest	(1,349,644)	472,993
Student activity funds	(2,477)	(32,453)
Deferred revenue	(149,031)	(698,394)
Other liabilities	2,248,687	649,062
Net cash provided by operating activities	37,717,447	30,952,993
Cash flows from investing activities:		
Proceeds from sale of investments	-	16,098,557
Purchases of property and equipment	(47,010,239)	(4,743,402)
Net cash provided (used) by investing activities	(47,010,239)	11,355,155
Cash flows from financing activities:		
Net proceeds from issuance of long-term debt	54,574,656	25,067,478
Payments of debt issuance costs	(2,458,451)	-
Principal payments on finance lease liabilities	(146,446)	(3,246,290)
Principal payments on long-term debt	(20,805,455)	(7,194,614)
Net cash provided by financing activities	31,164,304	14,626,574
Net increase in cash and restricted cash and cash equivalents	21,871,512	56,934,722
Cash and restricted cash and cash equivalents at beginning of year	114,925,588	57,990,866
Cash and restricted cash and cash equivalents at end of year	\$ 136,797,100	\$ 114,925,588
Reconciliation of cash and restricted cash and cash equivalents reported within the statement of financial position to the statement of cash flows:		
Cash and cash equivalents	\$ 72,000,602	\$ 58,456,344
Restricted cash and cash equivalents	64,796,498	56,469,244
Cash and restricted cash and cash equivalents reported on the statement of cash flows	\$ 136,797,100	\$ 114,925,588
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 29,563,069	\$ 30,566,314
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through finance lease	\$ -	\$ 358,920
Construction in progress accrued in accounts payable at year end	\$ 4,944,474	\$ -

See notes to consolidated financial statements.

International Leadership of Texas, Inc.

Notes to Consolidated Financial Statements

1. School and Nature of Activities

International Leadership of Texas, Inc. (Corporation), is a Texas not-for-profit corporation formed in 2011 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Effective October 20, 2020, the Corporation changed its name from International American Education Federation, Inc. to International Leadership of Texas, Inc. The Corporation is governed by a Board of Directors comprised of five members. The Board of Directors is selected pursuant to the bylaws of the Corporation and has the authority to make decisions, appoint the chief executive officer of the Corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Corporation. The Corporation operates a single charter school, International Leadership of Texas (ILTexas) and conducts other non-charter activities with and through International Leadership of Texas – Global (ILTexas Global), a separate not-for-profit corporation.

ILTexas is a state authorized, open enrollment charter school incorporating leadership and culture into all student classrooms. Students are given leadership roles teaching the concept of others before self. Each year, students put their dedication into action in a community service project and spend time learning 12 important character traits that foster a good leader. These traits empower students to overcome challenges to create a better, and more productive society in which to live and work. Stated directly, the mission of ILTexas is to prepare students for exceptional leadership roles in the international community by emphasizing servant leadership, mastering the English, Spanish, and Chinese languages, and strengthening the mind, body and character. In 2018, the Texas Education Agency approved the ILTexas charter renewal through 2028.

In 2013, its first year of operations, ILTexas opened its doors to over 2,400 students. This rapid growth has continued and, for the school year ended June 2021, ILTexas served over 22,500 students at 33 campuses among 20 locations. Now, at the opening of the 2021-2022 school year, ILTexas currently serves over 20,600 enrolled students.

ILTexas Global is a Texas not-for-profit corporation formed in 2014 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code with a mission to strengthen, enhance and support the advancement of ILTexas by engaging in fundraising and other charitable activities. ILTexas Global also operates a private school to serve ninth through twelfth grades with a primary focus of offering a Chinese cultural exchange program for the benefit of students in Texas and China. ILTexas Global partners with the Corporation's open-enrollment charter school to further support and facilitate cross-cultural educational models and methods.

ILTexas Global is included in these consolidated financial statements since the Corporation has a direct controlling interest and receives economic benefit from ILTexas Global. Intercompany transactions and balances are eliminated in the consolidation process. Unless otherwise noted, these consolidated entities are hereinafter referred to as the School. ILTexas receives support from the State of Texas Foundation School Fund, government grants and contributions. ILTexas Global is funded through tuition revenue, fees and donations.

International Leadership of Texas, Inc.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The School prepares its consolidated financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

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

Net assets without donor restrictions - Net assets not subject to donor or grantor imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors. Where applicable, net assets without donor restrictions remain subject to state accountability.

Net assets with donor restrictions - Net assets subject to donor or grantor restrictions that will be met by actions of the School and/or the passage of time. When a restriction expires, net assets with donor or grantor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Credit and Market Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2021 the School had no bank balances that were uninsured or without pledged collateral in the School's name.

During the years ended June 30, 2021 and 2020, the School earned revenues of \$219,527,710 and \$201,960,957, respectively, from the Texas Education Agency (TEA). These amounts constitute approximately 92% and 95%, respectively, of total revenues earned. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the School to continue to provide the current level of educational services to its students.

Cash and Cash Equivalents

The School considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash and cash equivalents is limited as to use under the terms of the bond indentures.

International Leadership of Texas, Inc.

Notes to Consolidated Financial Statements

Property and Equipment

Property and equipment are stated at cost, if purchased, and at fair market value, if donated. Assets with a cost of \$5,000 or more and a useful life greater than one year are capitalized.

Property and equipment acquired with public funds received for the operation of the School constitute public property pursuant to Chapter 12 of the Texas Education Code. Depreciation of these assets is calculated on a straight-line method over the estimated useful lives of 3 to 40 years. Expenditures for additions, major renewals, and betterments are capitalized, and maintenance and repairs are charged to expense as incurred.

Impairment of Long Lived Assets

The School reviews the carrying value of long-lived assets to determine if facts and circumstances suggest that they may be impaired. 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. There were no indications of asset impairment during the years ended June 30, 2021 and 2020.

Debt Issuance Costs and Original Issue Discounts or Premiums

Debt issuance costs and original issue discounts or premiums represent costs incurred related to the issuance of bonds payable and are deferred as a direct deduction from or addition to the carrying amount of bonds payable and amortized using the interest method over the related bond period. Amortization expense is included in debt service in the accompanying consolidated statement of activities.

Revenue Recognition

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. If public and private terms are not met revenues are reimbursed to funder. Conditional promises to give are contingent upon the School meeting certain criteria specified by the donors. Revenues from conditional promises to give are not recognized until the condition has been fulfilled, advances received from donors are recorded as deferred revenues until the condition has been fulfilled.

A portion of the School's revenue is derived from cost-reimbursable contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts are recognized as revenue when the School has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position. The School was awarded cost-reimbursable grants of \$2,260,060 that have not been received or recognized at June 30, 2021 because qualifying expenditures have not yet been incurred.

International Leadership of Texas, Inc.

Notes to Consolidated Financial Statements

The School recognizes contribution revenue for certain services received at the fair value of those services, provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Numerous individuals donate significant amounts of time to the School. No donated services were utilized that met the criteria to be recorded as revenue in the School's financial statements.

Tuition revenue is recognized over the period ILTexas Global provides services to students. Revenue is reported at the expected transaction price for customers based on historical experience and current market conditions. The estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience.

Revenue is recognized as performance obligations are satisfied, which is primarily ratably over the academic year. Generally, ILTexas Global bills students prior to the beginning of the academic year and student accounts receivable are due in full before classes begin unless the student has entered into a monthly payment plan. If a student withdraws during the academic year, the student is refunded based on a defined refund schedule. At year-end, there is no refund liability as the academic year is substantially complete. Accounts receivable are stated at the amount of consideration from students, of which the ILTexas Global has an unconditional right to receive. Balances are comprised of individually insignificant uncollateralized amounts from students and generally require payment either annually, semi-annually or monthly during the fiscal year. Accounts receivable balances older than sixty days are considered delinquent triggering collection efforts. Deferred tuition and fees consist of tuition and other fees collected in advance and are recognized as revenue over the school year.

Leases

The School accounts for two distinct types of leases, finance and operating which (i) requires lessees to record a right-of-use asset and a related liability for the rights and obligations associated with a lease, regardless of lease classification, and recognize lease expense in a manner similar to current accounting, (ii) eliminates current real estate specific lease provisions, (iii) modifies the lease classification criteria and (iv) aligns many of the underlying lessor model principles with those in the new revenue standard.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain premeasurements for the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the School's incremental borrowing rate. Generally, the School uses its incremental borrowing rate as a discount rate.

International Leadership of Texas, Inc.

Notes to Consolidated Financial Statements

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under the purchase option that the School is reasonably certain to exercise, lease payments in an optional renewal period if the School is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the School is reasonably certain not to early terminate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the School's estimate of the amount expected to be payable under a residual value guarantee, or if the School changes its assessment of whether it will exercise a purchase, extension or termination option.

The School has elected not to recognize right-of-use assets and lease liabilities for short term leases of furniture and equipment that have a lease term of 12 months or less and leases of low-value assets. The School recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Federal Income Taxes

ILTexas and ILTexas Global are organized as Texas nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Each entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. For the year ended June 30, 2021, the entities did not conduct unrelated business activities that would be subject to federal income taxes and had no uncertain tax positions. Therefore, no tax provision or liability has been reported in the accompanying consolidated financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing each entity's annual Form 990 and recognition of a tax liability (or asset) if the entity has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by each entity, and has concluded that as of June 30, 2021 and 2020, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

International Leadership of Texas, Inc.
Notes to Consolidated Financial Statements

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Contract Compliance

The School is responsible for compliance with provisions of contracts and grant agreements. Noncompliance could result in the disallowance of expenditures and a request for reimbursement. In the opinion of the School’s management, such disallowance, if any, would not be significant to the School’s consolidated financial statements.

Personal Leave

All employees of the School earn five days of state personal and sick leave per year and three days of local personal sick leave per year. There is no material liability for unpaid accumulated sick leave since the schools do not have a policy to pay any amount when the employees separate from service with the schools, and any unused balance of state days is transferable to other schools. The local days, if not used, are forfeited at the end of each year.

3. Restricted Cash and Cash Equivalents

Certain cash and cash equivalents are held in trust, which includes amounts required to be maintained in separate bank accounts in accordance with the 2015, 2018 and 2021 Series Master Trust Indenture and Security Agreements. Cash and cash equivalents held in trust and interest income earned on these funds are limited as to use under the terms of the bond indentures.

Restricted cash and cash equivalents held in trust were restricted as follows at June 30:

	2021		2020	
	International Leadership of Texas	International Leadership of Texas - Global	International Leadership of Texas	International Leadership of Texas - Global
Debt service reserve fund	\$ 38,761,493	\$ -	\$ 38,393,858	\$ -
Bond debt service fund (interest)	12,274,431	-	10,489,349	-
Bond debt service fund (principal)	7,207,904	-	6,815,740	-
Bond project and maintenance fund	6,542,886	-	652,792	-
Classroom consortium	-	9,784	-	117,505
Total restricted cash and cash equivalents	\$ 64,786,714	\$ 9,784	\$ 56,351,739	\$ 117,505

International Leadership of Texas, Inc.
Notes to Consolidated Financial Statements

4. Property and Equipment

Property and equipment consist of the following as of June 30:

	2021		2020	
	International Leadership of Texas	International Leadership of Texas - Global	International Leadership of Texas	International Leadership of Texas - Global
Land	\$ 46,346,699	\$ -	\$ 38,839,724	\$ -
Buildings and improvements	439,127,982	-	429,746,529	-
Furniture and equipment	8,427,557	9,878	16,338,873	9,878
Vehicles	4,479,061	-	3,133,998	-
Construction in progress	34,774,296	-	3,978,239	-
Total property and equipment	533,155,595	9,878	492,037,363	9,878
Less accumulated depreciation	(55,353,786)	(6,585)	(51,780,337)	(3,293)
Property and equipment, net	\$ 477,801,809	\$ 3,293	\$ 440,257,026	\$ 6,585

Depreciation expense for the years ended June 30, 2021 and 2020 totaled \$14,413,222 and \$13,800,184, respectively.

At June 30, 2021, construction in progress includes costs incurred to purchase land and construct three new educational facilities. At June 30, 2021, the School had open construction contracts for the construction of new educational facilities of approximately \$15,622,000, of which \$13,264,450 had been paid or incurred at year end.

5. Deferred Revenue

Deferred revenue consists of the following as of June 30:

	2021		2020	
	International Leadership of Texas	International Leadership of Texas - Global	International Leadership of Texas	International Leadership of Texas - Global
Refundable advance	\$ 260,490	\$ -	\$ 156,587	\$ -
Deferred tuition and related fees	-	154,965	-	407,899
	\$ 260,490	\$ 154,965	\$ 156,587	\$ 407,899

6. Leases

Finance Leases

ILTexas leases furniture and equipment totaling \$334,044 under finance leases at June 30, 2021 and 2020. Accumulated depreciation on these assets totaled \$185,580 and \$74,232 at June 30, 2021 and 2020, respectively.

As of June 30, 2021 and 2020 ILTexas has a finance lease liability totaling \$157,855 and \$304,301, respectively, bearing interest at the incremental borrowing rate of 4.625%.

International Leadership of Texas, Inc.
Notes to Consolidated Financial Statements

Future expected payments for the years ending June 30 are as follows:

2022		\$	123,160
2023			39,880
Less amounts representing interest			(5,185)
Present value of future minimum lease payments			157,855
Less current maturities			118,223
Finance lease liability, net of current maturities		\$	39,632

The majority of the leases contain purchase options exercisable by ILTexas. ILTexas intends to exercise these purchase options. ILTexas assesses at lease commencement whether it is reasonably certain to exercise its purchase options. The School reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

7. Long-Term Debt

The following is a summary of changes in the School's total long-term debt for the year ended June 30, 2021:

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
ILTexas					
Bonds payable:					
Series 2015A	\$ 105,680,000	\$ -	\$ (410,000)	\$ 105,270,000	\$ 2,160,000
Series 2015B	1,630,000	-	(1,630,000)	-	-
Series 2018A	53,580,000	-	-	53,580,000	-
Series 2018B	1,225,000	-	(465,000)	760,000	590,000
Series 2018C	1,383,652	-	(245,455)	1,138,197	260,182
Series 2018D	344,220,000	-	-	344,220,000	2,000,000
Series 2018E	12,855,000	-	(3,055,000)	9,800,000	3,285,000
Series 2021	-	49,630,000	-	49,630,000	-
Total bonds payable	520,573,652	49,630,000	(5,805,455)	564,398,197	8,295,182
Bond premiums/discounts	(4,843,711)	(20,253)	4,864,973	1,009	-
Debt issuance costs	(7,404,814)	(2,458,451)	431,550	(9,431,715)	-
Total bonds payable, net	508,325,127	47,151,296	(508,932)	554,967,491	8,295,182
Lines of credit	25,000,000	-	(15,000,000)	10,000,000	-
Total ILTexas	533,325,127	47,151,296	(15,508,932)	564,967,491	8,295,182
ILTexas - Global					
PPP Loan	67,478	79,684	(67,478)	79,684	-
Total	\$ 533,392,605	\$ 47,230,980	\$ (15,576,410)	\$ 565,047,175	\$ 8,295,182

International Leadership of Texas, Inc.
Notes to Consolidated Financial Statements

The following is a summary of changes in the School's total long-term debt for the year ended June 30, 2020:

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
ILTexas					
Bonds payable:					
Series 2015A	\$ 105,680,000	\$ -	\$ -	\$ 105,680,000	\$ 410,000
Series 2015B	3,550,000	-	(1,920,000)	1,630,000	1,630,000
Series 2018A	53,580,000	-	-	53,580,000	-
Series 2018B	1,570,000	-	(345,000)	1,225,000	465,000
Series 2018C	1,615,213	-	(231,561)	1,383,652	245,455
Series 2018D	344,220,000	-	-	344,220,000	-
Series 2018E	12,855,000	-	-	12,855,000	3,055,000
Total bonds payable	523,070,213	-	(2,496,561)	520,573,652	5,805,455
Bond discounts	(4,482,003)	(361,708)	-	(4,843,711)	-
Debt issuance costs	(7,853,149)	-	448,335	(7,404,814)	-
Total bonds payable, net	510,735,061	(361,708)	(2,048,226)	508,325,127	5,805,455
Notes payable	4,698,053	-	(4,698,053)	-	-
Lines of credit	-	25,000,000	-	25,000,000	-
Total ILTexas	515,433,114	24,638,292	(6,746,279)	533,325,127	5,805,455
ILTexas - Global					
PPP Loan	-	67,478	-	67,478	25,918
Total	<u>\$ 515,433,114</u>	<u>\$ 24,705,770</u>	<u>\$ (6,746,279)</u>	<u>\$ 533,392,605</u>	<u>\$ 5,831,373</u>

On June 1, 2015 ILTexas issued \$105,680,000 Education Revenue Bonds – Series 2015A and \$5,360,000 of taxable Education Revenue Bonds – Series 2015B. The bonds mature serially each August 15, starting 2018 until 2045. The bonds were issued as education revenue bonds, and have interest rates ranging from 4.625% to 6.25%, and are collateralized by a deed of trust and pledge of revenues of ILTexas.

On September 15, 2018 ILTexas issued \$53,580,000 Education Revenue Bonds – Series 2018A, \$1,570,000 of Taxable Education Revenue Bonds – Series 2018B, \$1,615,213 Subordinate Education Revenue Bonds – Series 2018C. The bonds mature serially each March 1, starting 2019 until 2043. The bonds were issued as education revenue bonds, and have interest rates ranging from 6% to 8.5%, and are collateralized by a deed of trust and pledge of revenues of ILTexas.

On December 20, 2018 ILTexas issued \$344,220,000 Education Revenue Bonds – Series 2018D and \$12,855,000 of Taxable Education Revenue Bonds – Series 2018E. The bonds mature serially each August 15, starting 2020 until 2048. The bonds were issued as education revenue bonds, and have interest rates ranging from 5% to 6.125%, and are collateralized by a deed of trust and pledge of revenues of ILTexas.

International Leadership of Texas, Inc.
Notes to Consolidated Financial Statements

On June 1, 2021 ILTexas issued \$49,630,000 Education Revenue Bonds – Series 2021. The bonds mature serially each August 15, starting 2023 until 2041. The bonds were issued as education revenue bonds, have interest rates ranging from 3% to 5%, and are collateralized by a deed of trust and pledge of revenues of ILTexas.

Proceeds of the bonds were used for capital asset purchases, construction, repayment of previously issued debt and establishing reserves for future debt service. The bonds are secured by notes issued under the master trust indentures, and such notes are secured by real estate.

The master trust indentures establish that the School must maintain operating reserves in an amount equal to at least forty five days of actual expenses for the year ended June 30, 2021 as well as a debt service coverage ratio, which stipulates that available revenues for each fiscal year must be equal to at least 1.10 times the annual debt service of the School as of the end of the first fiscal year after the date of issuance and thereafter until the individual bond or notes have been paid in full. During the year ended June 30, 2021, the School was in compliance with the requirements in accordance with the master trust indentures.

The required debt service payments to satisfy the requirements of the bonds are as follows for the years ending June 30:

	Principal	Interest	Total
2022	\$ 8,295,182	\$ 29,237,593	\$ 37,532,775
2023	8,865,793	30,389,894	39,255,687
2024	10,322,341	29,904,521	40,226,862
2025	10,859,881	29,402,406	40,262,287
2026	11,185,000	28,869,095	40,054,095
2027-2031	110,080,000	129,536,507	239,616,507
2032-2036	78,185,000	102,537,057	180,722,057
2037-2041	103,320,000	78,560,981	181,880,981
2042-2046	137,540,000	46,511,288	184,051,288
2047-2051	83,230,000	10,144,576	93,374,576
2052	2,515,000	148,800	2,663,800
Total	<u>\$ 564,398,197</u>	<u>\$ 515,242,718</u>	<u>\$ 1,079,640,915</u>

In May 2020, ILTexas Global entered into an unsecured loan (PPP Loan) in the aggregate amount of \$67,478 with a bank pursuant to the Paycheck Protection Program (PPP), which is sponsored by the Small Business Administration (SBA), and is part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), as amended by the Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act). ILTexas Global received notification of full forgiveness of the PPP Loan on April 13, 2021. Accordingly, ILTexas Global has recognized \$67,478 as a gain in the other revenues section of the consolidated statement of activities for the year ended June 30, 2021.

International Leadership of Texas, Inc.

Notes to Consolidated Financial Statements

In March 2021, ILTexas Global received a second PPP loan (PPP2 Loan) in the amount of \$79,684. The PPP2 Loan may be forgiven partially or in full, if certain conditions are met. If the PPP2 Loan is not forgiven, it will accrue interest at 1% and will be due in 2 years. Management of ILTexas Global believes the PPP2 Loan will be fully forgiven. At June 30, 2021, the balance of the PPP2 Loan totaling \$79,684 is reported as long-term debt.

In April 2020, ILTexas entered into a line of credit agreement with a bank whereby it may borrow up to \$35,000,000, with interest due at the greater of 3.15% or LIBOR (.24% at June 30, 2021). Interest payments are due monthly with principal due upon maturity on April 23, 2023. As of June 30, 2020, \$15,000,000 in advances were outstanding on the agreements. The line is collateralized under the master trust indentures.

In April 2020, ILTexas entered into a separate line of credit agreement with a bank whereby it may borrow up to \$10,000,000, with interest due at the greater of 4.00% or LIBOR (.24% at June 30, 2021). Interest payments are due monthly with principal due upon maturity on April 23, 2023. As of June 30, 2021 and 2020, \$10,000,000 in advances were outstanding on the line of credit. The line is collateralized under the master trust indenture.

Future maturities on the lines of credit and note payable are as follows for the years ending June 30:

2022	\$	-
2023		<u>10,079,684</u>
	\$	<u>10,079,684</u>

Interest expense on long-term debt for the years ended June 30, 2021 and 2020 totaled \$29,549,198 and \$27,279,763, respectively.

8. Net Assets with Donor Restrictions

Net assets with donor restrictions represent state resources to be used for educational purposes.

9. Defined Benefit Pension Plan

Plan Description

The School contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to

International Leadership of Texas, Inc.

Notes to Consolidated Financial Statements

the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Funding Policy

Plan members contributed 8% of their annual covered salary in 2021. The school contributes 7.75% for new members of the first 90 days of employment, and the state of Texas contributes 7.75%. Additionally, the School makes a 1.7% non-OASDI payment for all TRS eligible employees. The School contributions do not represent more than 5% of the TRS' total contributions. For the year ended June 30, 2021 and 2020, the School contributed \$854,251 and \$2,101,501 to TRS, respectively.

The risks of participating in a multi-employer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is not withdrawal penalty for leaving TRS.

Total TRS plan assets as of August 31, 2020 and 2019 were \$184 billion and \$181 billion, respectively. Accumulated benefit obligation as of August 31, 2020 and 2019 was \$219 and \$210 billion. The plan was 75.54% and 75.24% funded as of August 31, 2020 and 2019, respectively.

10. Health Care Coverage

During the years ended June 30, 2021 and 2020, full-time employees of the School were covered by a health insurance plan. The School contributed \$397 per month per employee for the period from September 1, 2020 to June 30, 2021 and \$367 per month per employee for the period from September 1, 2019 to June 30, 2020 to the plan.

Employees, at their option, authorized payroll withholdings to pay contributions or premiums for their dependents. All premiums were paid to licensed insurers.

11. 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.

International Leadership of Texas, Inc.

Notes to Consolidated Financial Statements

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.

During the year ended June 30, 2021, ILTexas performed an internal review of the child nutrition program. As a result of the internal review, ILTexas returned approximately \$350,000 to the Texas Department of Agriculture in July 2021. This amount plus approximately \$663,000 in questioned costs is included in other liabilities at June 30, 2021.

Litigation

The School is contingently liable in connection with certain claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, the School's management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the School's financial position.

Uncertainties

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the School. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

12. Functional Allocation of Expenses

Functional allocation of expenses

Expenses are reported by their functional classification as program services or management and general or fundraising. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the School exists. Fundraising activities include the solicitation of contributions of money, securities, material, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities.

Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefited. Salaries and related costs are charged directly either to program services, fundraising or administration based on actual time worked in each area. Information technology costs, depreciation, interest expense, and occupancy costs are allocated based on whether the costs are associated with instructional campuses (program services) or with administrative buildings.

International Leadership of Texas, Inc.
Notes to Consolidated Financial Statements

The School's expenses by natural classification and function are as follows for the year ended June 30, 2021:

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Costs	Debt	Total
Program Services:						
Instructional and Instructional related services	\$ 90,706,209	\$ 3,800,832	\$ 11,863,673	\$ 1,435,701	\$ 17,341,448	\$ 125,147,863
Instructional and school leadership	11,406,196	170,799	158,451	179,776	311,671	12,226,893
Support Services - Student	8,448,053	10,367,266	2,138,527	765,716	3,480,937	25,200,499
Support Services - Nonstudent based	4,158,243	15,006,825	3,306,484	14,112,675	4,730,591	41,314,818
Ancillary services	751,503	2,032,504	12,615	21,815	451,704	3,270,141
Total program services	115,470,204	31,378,226	17,479,750	16,515,683	26,316,351	207,160,214
Support Services:						
Instructional and school leadership	-	-	-	-	1,597,950	1,597,950
Administrative support services	4,817,966	1,281,541	124,034	798,744	993,573	8,015,858
Support services - nonstudent based	-	-	-	-	1,132,668	1,132,668
Fundraising	127,283	-	-	394	-	127,677
Total support services	4,945,249	1,281,541	124,034	799,138	3,724,191	10,874,153
Total expenses	\$ 120,415,453	\$ 32,659,767	\$ 17,603,784	\$ 17,314,821	\$ 30,040,542	\$ 218,034,367

The School's expenses by natural classification and function are as follows for the year ended June 30, 2020:

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Costs	Debt	Total
Program Services:						
Instructional and Instructional related services	\$ 86,236,030	\$ 3,953,580	\$ 7,715,559	\$ 1,950,629	\$ 20,940,043	\$ 120,795,841
Instructional and school leadership	1,199,095	72,560	6,123	43,915	326,796	1,648,489
Support Services - Student	7,786,876	10,320,213	239,282	714,344	1,858,958	20,919,673
Support Services - Nonstudent based	2,088,999	10,235,695	752,742	13,420,534	535,696	27,033,666
Ancillary services	638,232	606,960	354,812	17,070	175,344	1,792,418
Total program services	97,949,232	25,189,008	9,068,518	16,146,492	23,836,837	172,190,087
Support Services:						
Instructional and school leadership	9,209,559	55,204	92,631	50,512	2,506,822	11,914,728
Administrative support services	4,464,679	871,333	76,684	1,382,017	1,127,473	7,922,186
Support services - nonstudent based	1,639,302	1,369,963	754,015	1,439,454	430,234	5,632,968
Fundraising	-	-	-	6,360	-	6,360
Total support services	15,313,540	2,296,500	923,330	2,878,343	4,064,529	25,476,242
Total expenses	\$ 113,262,772	\$ 27,485,508	\$ 9,991,848	\$ 19,024,835	\$ 27,901,366	\$ 197,666,329

13. Liquidity and Availability of Resources

The School relies on state aid and federal grants to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a twelve-month period. The School considers all expenditures related to its ongoing activities of education as well as the conduct of services undertaken to support those activities, to be general expenditures.

As part of the School's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due or as additional funding opportunities are presented by maintaining a significant portion of its assets in cash.

International Leadership of Texas, Inc.
Notes to Consolidated Financial Statements

The School's financial assets available within one year of the consolidated statements of financial position date for general expenditure are as follows:

	<u>2021</u>	<u>2020</u>
Financial assets at June 30:		
Cash and cash equivalents	\$ 72,000,602	\$ 58,456,344
Restricted cash and cash equivalents	64,796,498	56,469,244
Due from government agencies	32,030,542	27,413,333
Accounts receivable	-	6,500
	<u>168,827,642</u>	<u>142,345,421</u>
Less financial assets not available for general expenditure:		
Restricted cash and cash equivalents	<u>(64,796,498)</u>	<u>(45,979,895)</u>
Total financial assets available for general expenditure	<u>\$104,031,144</u>	<u>\$ 96,365,526</u>

14. Subsequent Events

Subsequent to year end, the School purchased two properties totaling approximately \$7,700,000 for the future construction of two new school buildings. Additionally, the School entered into agreements to purchase furniture and renovate headquarters totaling approximately \$4,700,000.

On August 31, 2021, the School received a donation of land with a fair value of \$560,000 to serve as the site for a school in Cleveland, Texas.

Effective July 1, 2021, the Corporation no longer has a controlling interest in ILTexas Global.

The School evaluated subsequent events through the date the financial statements were available to be issued, and concluded that no additional disclosures are required.

Supplemental Information

draft

International Leadership of Texas, Inc.
Consolidating Statement of Financial Position
June 30, 2021

	International Leadership of Texas	International Leadership of Texas - Global	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 71,469,062	\$ 531,540	\$ -	\$ 72,000,602
Restricted cash and cash equivalents	64,786,714	9,784	-	64,796,498
Due from government agencies	32,030,542	-	-	32,030,542
Other current assets	-	10,013	-	10,013
Total current assets	168,286,318	551,337	-	168,837,655
Property and equipment, net	477,801,809	3,293	-	477,805,102
Total assets	\$ 646,088,127	\$ 554,630	\$ -	\$ 646,642,757
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 10,329,943	\$ 26,606	\$ -	\$ 10,356,549
Accrued payroll	14,505,092	-	-	14,505,092
Accrued interest	12,016,232	-	-	12,016,232
Student activity funds	760,730	-	-	760,730
Deferred revenue	260,490	154,965	-	415,455
Other liabilities	2,897,749	-	-	2,897,749
Current maturities of finance lease liability	118,223	-	-	118,223
Current maturities of long-term debt	8,295,182	-	-	8,295,182
Total current liabilities	49,183,641	181,571	-	49,365,212
Long-term liabilities:				
Finance lease liability	39,632	-	-	39,632
Long-term debt, net of debt issuance costs	556,672,309	79,684	-	556,751,993
Total liabilities	605,895,582	261,255	-	606,156,837
Net assets:				
Without donor restrictions	2,633,540	293,375	-	2,926,915
With donor restrictions	37,559,005	-	-	37,559,005
Total net assets	40,192,545	293,375	-	40,485,920
Total liabilities and net assets	\$ 646,088,127	\$ 554,630	\$ -	\$ 646,642,757

See notes to consolidated financial statements.

International Leadership of Texas, Inc.
Consolidating Statement of Activities
Year Ended June 30, 2021

	International Leadership of Texas	International Leadership of Texas - Global	Eliminations	Total
Revenue and support:				
Local support:				
SSA - Local revenues from member districts	\$ 381,842	\$ 984,820	(381,842)	\$ 984,820
Interest, dividends, gains, and losses	68,491	-	-	68,491
Rent	9,500	-	-	9,500
Foundations, other non-profit organizations, gifts, and bequests	91	15,720	-	15,811
Other revenues from local sources	415,280	67,571	-	482,851
Food service activity	(139,242)	-	-	(139,242)
Total local support	735,962	1,068,111	(381,842)	1,422,231
State program revenues:				
Per capita apportionment	9,146,435	-	-	9,146,435
Foundation school program act revenue	194,075,741	-	-	194,075,741
State program revenue distributed by TEA	4,722,170	-	-	4,722,170
Total state program revenue	207,944,346	-	-	207,944,346
Federal program revenues:				
National school breakfast and lunch program	717,912	-	-	717,912
Federal program revenue distributed by TEA	18,360,489	-	-	18,360,489
Federal revenues distributed by other State of Texas agencies	11,354,007	-	-	11,354,007
Total federal program revenue	30,432,408	-	-	30,432,408
Total revenue and support	239,112,716	1,068,111	(381,842)	239,798,985

See notes to consolidated financial statements.

International Leadership of Texas, Inc.
Consolidating Statement of Activities
Year Ended June 30, 2021

	International Leadership of Texas	International Leadership of Texas - Global	Eliminations	Total
Expenses:				
Instruction	\$ 99,710,035	\$ 1,061,317	\$ (381,842)	\$ 100,389,510
Instruction resources and media	1,033,326	-	-	1,033,326
Curriculum and instructional staff development	6,962,181	-	-	6,962,181
Instructional leadership	1,944,695	-	-	1,944,695
School leadership	9,970,527	-	-	9,970,527
Guidance, counseling, evaluation services	5,501,444	-	-	5,501,444
Social work services	76,343	-	-	76,343
Health services	1,845,363	-	-	1,845,363
Student transportation	1,213,837	-	-	1,213,837
Food services	11,498,105	-	-	11,498,105
Extracurricular activities	1,584,470	-	-	1,584,470
General administration	6,199,471	244,233	-	6,443,704
Facilities maintenance and operations	27,084,823	-	-	27,084,823
Security and monitoring services	2,432,040	-	-	2,432,040
Data processing services	7,067,364	-	-	7,067,364
Community services	2,818,419	-	-	2,818,419
Debt service	30,040,539	-	-	30,040,539
Fundraising	127,677	-	-	127,677
Total expenses	217,110,659	1,305,550	(381,842)	218,034,367
Excess of revenues over expenses from operations	22,002,057	(237,439)	-	21,764,618
Non-operating activities:				
Other gain	31,969	-	-	31,969
Total non-operating activities	31,969	-	-	31,969
Change in net assets	22,034,026	(237,439)	-	21,796,587
Net assets at beginning of year	18,158,519	530,814	-	18,689,333
Net assets at end of year	\$ 40,192,545	\$ 293,375	\$ -	\$ 40,485,920

See notes to consolidated financial statements.

Supplemental Information Required by TEA

draft

International Leadership of Texas
Statement of Financial Position
June 30, 2021

Assets

Current assets:	
Cash and cash equivalents	\$ 71,469,062
Restricted cash and cash equivalents	64,786,714
Due from government agencies	<u>32,030,542</u>
Total current assets	168,286,318
Property and equipment, net	<u>477,801,809</u>
Total assets	<u>\$ 646,088,127</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 10,329,943
Accrued payroll	14,505,092
Accrued interest	12,016,232
Student activity funds	760,730
Deferred revenue	260,490
Other liabilities	2,897,749
Current maturities of finance lease liability	118,223
Current maturities of long-term debt	<u>8,295,182</u>
Total current liabilities	49,183,641
Long-term liabilities:	
Finance lease liability	39,632
Long-term debt, net of debt issuance costs	<u>556,672,309</u>
Total liabilities	605,895,582
Net assets:	
Without donor restrictions	2,633,540
With donor restrictions	<u>37,559,005</u>
Total net assets	<u>40,192,545</u>
Total liabilities and net assets	<u>\$ 646,088,127</u>

International Leadership of Texas
Statement of Activities
Year Ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Local support:			
5722 SSA - Local revenues from member districts	\$ 381,842	\$ -	\$ 381,842
5742 Interest, dividends, gains, and losses	68,491	-	68,491
5743 Rent	9,500	-	9,500
5744 Foundations, other non-profit organizations, gifts, and bequests	91	-	91
5749 Other revenues from local sources	415,280	-	415,280
5751 Food service activity	<u>(139,242)</u>	<u>-</u>	<u>(139,242)</u>
Total local support	735,962	-	735,962
State program revenues:			
5811 Per capita apportionment	-	9,146,435	9,146,435
5812 Foundation school program act revenue	-	194,075,741	194,075,741
5829 State program revenue distributed by TEA	<u>-</u>	<u>4,722,170</u>	<u>4,722,170</u>
Total state program revenue	-	207,944,346	207,944,346
Federal program revenues:			
5921 National school breakfast and lunch program	-	717,912	717,912
5929 Federal program revenue distributed by TEA	-	18,360,489	18,360,489
5939 Federal revenues distributed by other State of Texas agencies	<u>-</u>	<u>11,354,007</u>	<u>11,354,007</u>
Total federal program revenue	-	30,432,408	30,432,408
Net assets released from restrictions			
Restrictions satisfied by payments	<u>217,110,659</u>	<u>(217,110,659)</u>	<u>-</u>
Total revenue and support	217,846,621	21,266,095	239,112,716
Expenses:			
11 Instruction	99,710,035	-	99,710,035
12 Instruction resources and media	1,033,326	-	1,033,326
13 Curriculum and instructional staff development	6,962,181	-	6,962,181
21 Instructional leadership	1,944,695	-	1,944,695
23 School leadership	9,970,527	-	9,970,527
31 Guidance, counseling, evaluation services	5,501,444	-	5,501,444
32 Social work services	76,343	-	76,343
33 Health services	1,845,363	-	1,845,363
34 Student transportation	1,213,837	-	1,213,837
35 Food services	11,498,105	-	11,498,105
36 Extracurricular activities	1,584,470	-	1,584,470
41 General administration	6,199,471	-	6,199,471
51 Facilities maintenance and operations	27,084,823	-	27,084,823
52 Security and monitoring services	2,432,040	-	2,432,040
53 Data processing services	7,067,364	-	7,067,364
61 Community services	2,818,419	-	2,818,419
71 Debt service	30,040,539	-	30,040,539
81 Fundraising	<u>127,677</u>	<u>-</u>	<u>127,677</u>
Total expenses	217,110,659	-	217,110,659
Excess of revenues over expenses from operations	735,962	21,266,095	22,002,057
Non-operating activities:			
7959 Other gain	<u>31,969</u>	<u>-</u>	<u>31,969</u>
Total non-operating activities	31,969	-	31,969
Change in net assets	767,931	21,266,095	22,034,026
Net assets at beginning of year	<u>1,865,609</u>	<u>16,292,910</u>	<u>18,158,519</u>
Net assets at end of year	<u>\$ 2,633,540</u>	<u>\$ 37,559,005</u>	<u>\$ 40,192,545</u>

International Leadership of Texas
Statement of Cash Flows
Year Ended June 30, 2021

Cash flows from operating activities:	
Change in net assets	\$ 22,034,026
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	14,409,930
Amortization of bond discount	(20,253)
Amortization of debt issuance costs	431,551
Net gain on sale of vehicles	2,384
Changes in assets and liabilities:	
Due from government agencies	(4,617,209)
Other current assets	194,376
Accounts payable	4,328,448
Accrued payroll	490,125
Accrued interest	(1,349,644)
Student activity funds	26,478
Deferred revenue	103,903
Other liabilities	<u>2,297,749</u>
Net cash provided by operating activities	38,331,864
Cash flows from investing activities:	
Purchases of property and equipment	<u>(47,012,623)</u>
Net cash used by investing activities	(47,012,623)
Cash flows from financing activities:	
Net proceeds from issuance of long-term debt	54,494,972
Payment of debt issuance costs	(2,458,451)
Principal payments on finance lease liabilities	(146,446)
Principal payments on long-term debt	<u>(20,805,455)</u>
Net cash provided by financing activities	<u>31,084,620</u>
Net increase in cash and cash equivalents	22,403,861
Cash and restricted cash and cash equivalents at beginning of year	<u>113,851,915</u>
Cash and restricted cash and cash equivalents at end of year	<u>\$ 136,255,776</u>
Reconciliation of cash and restricted cash and cash equivalents reported within the statement of financial position to the statement of cash flows:	
Cash and cash equivalents	\$ 71,469,062
Restricted cash and cash equivalents	<u>64,786,714</u>
Cash and restricted cash and cash equivalents reported on the statement of cash flows	<u>\$ 136,255,776</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	<u>\$ 29,563,069</u>
Supplemental schedule of noncash investing and financing activities:	
Construction in progress accrued in accounts payable at year end	<u>\$ 4,944,474</u>

International Leadership of Texas
Schedule of Expenses
Year Ended June 30, 2021

<u>Object Code</u>	<u>Description</u>	<u>Amount</u>
6100	Payroll costs	\$ 119,970,775
6200	Professional and contracted services	32,563,980
6300	Supplies and materials	17,514,640
6400	Other operating costs	17,020,722
6500	Debt service	<u>30,040,542</u>
	Total expenses	<u>\$ 217,110,659</u>

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International Leadership of Texas
Schedule of Capital Assets
June 30, 2021

Description	Ownership Interest	
	Local	State
1510 Land	\$ 519,788	\$ 45,826,911
1520 Buildings and improvements	4,376,666	434,751,316
1531 Vehicles	74,806	4,404,255
1549 Furniture and equipment	743,325	7,684,232
1580 Construction in progress	-	34,774,296
1570 Accumulated depreciation	<u>(1,022,634)</u>	<u>(54,331,152)</u>
	<u>\$ 4,691,951</u>	<u>\$ 473,109,858</u>

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International Leadership of Texas
Budgetary Comparison Schedule
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenue and support:				
Local support:				
5722 SSA- Local revenues from member districts	\$ 800,000	\$ 380,000	\$ 381,842	\$ 1,842
5742 Interest, dividends, gains, and losses	700,000	68,000	68,491	491
5743 Rent	-	10,000	9,500	
5744 Foundations, other non-profit organizations, gifts, and bequests	-	-	91	91
5749 Other revenues from local sources	833,051	410,000	415,280	5,280
5751 Food service activity	1,124,875	-	(139,242)	(139,242)
State program revenues:				
5811 Per capita apportionment	9,000,000	9,000,000	9,146,435	146,435
5812 Foundation school program act revenue	177,370,669	194,613,368	194,075,741	(537,627)
5829 State program revenue distributed by TEA	4,500,000	4,700,000	4,722,170	22,170
Federal program revenues:				
5920 Federal program revenue distributed by TEA	22,812,221	30,786,632	30,432,408	(354,224)
Total revenue and support	217,140,816	239,968,000	239,112,716	(854,784)
Expenses:				
11 Instruction	101,198,547	101,900,000	99,710,035	2,189,965
12 Instruction resources and media	1,080,377	1,034,000	1,033,326	674
13 Curriculum and instructional staff development	7,392,607	6,832,000	6,962,181	(130,181)
21 Instructional leadership	1,555,137	1,789,000	1,944,695	(155,695)
23 School leadership	10,377,796	9,937,000	9,970,527	(33,527)
31 Guidance, counseling, evaluation services	5,509,208	5,537,000	5,501,444	35,556
32 Social work services	98,088	78,000	76,343	1,657
33 Health services	1,686,076	1,882,000	1,845,363	36,637
34 Student transportation	1,545,273	1,210,000	1,213,837	(3,837)
35 Food services	10,377,002	14,495,000	11,498,105	2,996,895
36 Extracurricular activities	1,593,899	1,572,000	1,584,470	(12,470)
41 General administration	6,173,190	6,299,000	6,199,471	99,529
51 Facilities maintenance and operations	26,883,395	27,836,000	27,084,823	751,177
52 Security and monitoring service	1,682,668	2,488,000	2,432,040	55,960
53 Data processing services	5,467,207	7,132,000	7,067,364	64,636
61 Community services	1,847,315	2,776,000	2,818,419	(42,419)
71 Debt service	30,739,952	30,090,000	30,040,539	49,461
81 Fundraising	10,000	113,000	127,677	(14,677)
Total expenses	215,217,737	223,000,000	217,110,659	5,889,341
Excess revenues over expenses from operations	1,923,079	16,968,000	22,002,057	(6,744,125)
Non-operating activities:				
7959 Other gain	-	32,000	31,969	31
Total non-operating activities	-	32,000	31,969	31
Change in net assets	1,923,079	17,000,000	22,034,026	(6,744,156)
Net assets at beginning of year	18,158,519	18,158,519	18,158,519	-
Net assets at end of year	\$ 20,081,598	\$ 35,158,519	\$ 40,192,545	\$ (5,034,026)

**International Leadership of Texas
Education Programs Schedule
Year Ended June 30, 2021**

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did you LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$20,333,899
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PIC's 24, 26, 28, 29, 30, 34)	\$17,509,652
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA have written policies sand procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year	\$4,614,017
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PIC's 25, 35)	\$3,109,364

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International Leadership of Texas

Schedule of Real Property Ownership Interest

Year Ended June 30, 2021

Description	Property Address	Total Assessed Value	Ownership Interest		
			Local	State	Federal
A005401, R STEVENSON (ICL), TRACT 5, 12.14 ACRES	TBD - 4070 State Hwy 6 South, College Station, TX 77845	\$ 1,763,960	\$ -	\$ 1,763,960	\$ -
BOWEN ADDITION Block 1 Lot 2A	4950 S. Bowen Rd., Arlington, TX 76017	21,442,526	-	21,442,526	-
ILTexas GP ADDN Block 1 Lot 1	2851 Ragland Rd., Grand Prairie, TX 75052	15,596,422	-	15,596,422	-
SUNBELT ADD Block A Lot 3 AKA WHIDDON ADDN	6460 S. State Hwy 360, Grand Prairie, TX 75052	123,623	-	123,623	-
GANDY, BLOCK 1, LOT 1, ACRES 14.38	3610 Longmire Dr., College Station, TX 77845	13,448,849	-	13,448,849	-
WOODHAVEN CNTRY CLUB ESTATES Block 14A Lot 1	5901 Boca Raton Blvd., Ft. Worth, TX 76112	15,438,041	-	15,438,041	-
SPANISH OAKS APT ADDITION Block 1 Lot 1	5817 Boca Raton Blvd., Ft. Worth, TX 76112	303,831	-	303,831	-
ILTexas BLK 1 LT 1 ACS 13.174	3301 N. Shiloh Rd., Garland, TX 75041	-	-	-	-
ILTexas HS BLK 1 LOT 1 ACS 14.204	4413 N Shiloh Rd. (listed as 4749), Garland, TX 75044	-	-	-	-
ILTexas HS BLK 1 LT 2 ACS 3.947	2650 Arapaho Rd. (listed as 2640), Garland, TX 75044	-	-	-	-
CHARTER SCHOOL ADDN Block A Lot 1	3501 Great Southwest Pkwy. , Grand Prairie, TX 75052	22,568,751	-	22,568,751	-
GREENWAY BLK 1 LT 2A ACS 3.357	2021 Lakeside Blvd., Richardson, TX 75082	6,245,000	-	6,245,000	-
RES A BLK 1 PORTER FRANZ	24406 Franz Rd., Katy, TX 77493	-	-	-	-
0171 JNO FREDERICK, ACRES 21.2802, Katy Westpark High School, Block 1, Unrestricted Reserve "A"	20055 Beechnut St., Richmond, TX 77407	18,161,043	-	18,161,043	-
ILTexas ADDN Block 1 Lot 1 LESS PORTION IN TIF D214060708	2301 Heritage Trace Pkwy., Ft. Worth, TX 76177	19,287,541	-	19,287,541	-
ILTexas ADDN Block 1 Lot 1 PORTION IN TIF D214060708	2301 Heritage Trace Pkwy., Ft. Worth, TX 76177	23,398,587	-	23,398,587	-
RICHMOND ADDN - FT WORTH Block 36 Lot 1	10537 NW Hwy. 287, Ft. Worth, TX 76131	907,716	-	907,716	-
RICHMOND ADDN - FT WORTH Block 36 Lot 1 IMROVEMENT ONLY	10537 NW Hwy. 287, Ft. Worth, TX 76131	14,691,268	-	14,691,268	-
RICHMOND ADDN - FT WORTH Block 28 Lot 1 PLAT D220093983 (14.60 @)	10421 Lakemont Dr., Ft. Worth, TX 76131	954,236	-	954,236	-
PLEASANT RUN CHARTER SCHOOL BLK 1 LT 1 ACS 11.680	1900 W Pleasant Run Rd., Lancaster, TX 75146	-	-	-	-
NORTHGLENN ADDN Block 1 Lot 1R	4131 Rufe Snow Dr., North Richland Hills, TX 76180	19,812,177	-	19,812,177	-
RES A BLK 1 EAST OREM CHARTER SCHOOL	5445 E Orem Dr., Houston, TX 77048	-	-	-	-
SAGINAW CHARTER SCH SUBD Block 1 Lot 1	500 N. Old Decatur Rd., Saginaw, TX 76179	20,984,596	-	20,984,596	-
BLK 6629 TR 11 ACS 26.65	7811 University Hills Blvd., Dallas, TX 75241	533,000	-	533,000	-
.3500 U/D IN RES A BLK 1 (14.7958) WESTPARK CHARTER SCHOOL	15300 Bellaire Blvd., Houston, TX 77083	-	-	-	-
RES B WINDMILL LAKES SEC 1 R/P	9898 Windmill Lakes Blvd. (listed as 9901), Houston, TX 77075	-	-	-	-
RES A WINDMILL LAKES SEC 1 R/P	9901 Windmill Lakes Blvd., Houston, TX 77075	-	-	-	-
RES A3 WINDMILL LAKES SEC 1 R/P	9901 Windmill Lakes Blvd., Houston, TX 77075	-	-	-	-
RES A2 WINDMILL LAKES SEC 1 R/P	9901 Windmill Lakes Blvd., Houston, TX 77075	-	-	-	-
IN PROGRESS:		-	-	-	-
RESERVE D, BLOCK 29, SANTA FE 6	TBD - Road 5200 (Community Drive) and Road 5500 (Alameda Drive), Cleveland, TX 77327	-	-	-	-
616 J LAWRENCE 54.419 ACRES	TBD - Double Oak Ave. at Davis Dr., Grand Prairie, TX 76065	-	-	-	-
Liberty at Broadway Marketplace (A0070 WDC Hall) (Pearland) BLK1 Lot 1 Acres 4.587 Front Acreage, BLK 1 Lot2 Acres 8.028 Primary Site Frontage Acreage, Lot Detention Reserve Acres 3.887 DET-RET Pond.	TBD - E. Broadway & Liberty Dr., Pearland, TX 77581	-	-	-	-
0062 WM MORTON, TRACT 1, ACRES 52.92	TBD - 1202 FM 359, Richmond, TX 77406	-	-	-	-

**International Leadership of Texas
Related Party Transactions
Year Ended June 30, 2021**

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During Fiscal Year</u>	<u>Principal Balance Due</u>
None								

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International Leadership of Texas
Schedule of Related Party Compensation and Benefits
Year Ended June 30, 2021

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During Fiscal Year</u>
None							

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Compliance Reports

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

To the Board of Directors of
International Leadership of Texas, Inc.

We have audited the consolidated financial statements of International Leadership of Texas, Inc. (School) (a nonprofit Organization), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 21, 2021. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The consolidated financial statements of International Leadership of Texas – Global were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with International Leadership of Texas – Global.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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*.

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.

draft
A Limited Liability Partnership

Arlington, Texas
October 21, 2021

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors of
International Leadership of Texas, Inc.

Report on Compliance for Each Major Federal Program

We have audited International Leadership of Texas, Inc.'s (School) (a nonprofit Organization) 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, 2021. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' 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 U.S. generally accepted auditing standards; 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.

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, 2021.

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 item 2021-001. Our opinion on each major federal program is not modified with respect to these matters.

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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or 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.

We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-001 to be a material weakness. The School's response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

A Limited Liability Partnership

Arlington, Texas
October 21, 2021

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International Leadership of Texas, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section I – Summary of Auditors’ Results

Consolidated Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Noncompliance material to consolidated financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified?	None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Identification of major federal programs or cluster:	
Child and Adult Care Food Program	CFDA 10.558
Special Education Grants to States	CFDA 84.027A
Education Stabilization Fund Under the Coronavirus Aid, Relief, And Economic Security Act	CFDA 84.425D
Coronavirus Relief Fund	CFDA 21.019
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

Audit findings: None

International Leadership of Texas, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

2021-001: Internal Controls over Food Program Manual Meal Count Process

Criteria: Internal controls over the food program manual meal count process should be designed and implemented to ensure that the meal count is properly documented to reflect meals served to students and new campuses and service centers are approved as site locations by the Texas Department of Agriculture (TDA).

Condition: During the fiscal year, ILTexas operated a child nutrition program which delivered meals to campuses, homes, and other service centers throughout Texas. The food was for eligible children, funded by the U.S. Department of Agriculture, and administered by the TDA. Due to the pandemic, ILTexas served meals to students in a drive up grab and go manner and added additional sites for meal delivery. During an internal audit, ILTexas discovered a former employee had authorized food deliveries to sites not approved by the TDA. When funding claims were submitted, unauthorized sites were included with authorized sites. The sites utilized manual meal count sheets to record meals served to eligible students and families. ILTexas also discovered, the written meal count sheets were not properly documented in accordance with the TDA operating guidance.

Effect: Meals served at unapproved sites were not eligible for reimbursement and the documentation of meals served may not meet the requirements of TDA review.

Known costs: \$351,611 returned to TDA

Questioned costs: \$650,000 estimate under review

Cause: Internal controls over the food program site approvals were not properly followed to ensure meals were served only at approved sites. Manual meal counts were not administratively reviewed to ensure the check marks preferred by TDA reviewers were consistently applied to every meal served.

Perspective: During the pandemic, a former employee did not follow proper procedures to approve every new deliver site created to serve students. Additionally, the electronic meal count system was often unavailable and a manual tally sheet system had to be implemented. Drive-up grab-and-go lines created additional challenges as staff focused on delivering meals to students in a safe manner and employees reverted to drawing lines through tally sheets instead of applying the individual check marks preferred by TDA reviewers.

Recommendation: We recommend ILTexas increase training of employees on processes to document manually counted meals served to students. This includes ensuring manual meal count sheets are reviewed and signed by the Child Nutrition Manager and submitted to a Supervisor for review and approval. Additionally, as it has done in this instance, ILTexas needs to continue to hold itself and employees to the highest standards in all official matters.

International Leadership of Texas, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Management's Response: In an effort to strengthen the internal knowledge base and expertise within ILTexas, a new Child Nutrition Director with extensive background and experience with child nutrition programs was hired and begins in October 2021. Additional internal controls have been put in place for meal counts that now require validation by the site supervisor, Child Nutrition Director and Business Manager. Additionally, the Child Nutrition department will discuss and implement best practices to establish the highest level of controls for manual meal counts and adding new sites. All Child Nutrition staff will attend additional training to ensure the accuracy and completeness of all documentation.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

Section IV – Summary of Prior Year Audit Findings

Audit findings: None

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International Leadership of Texas, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/ Pass through Grantor/ Program or Cluster Title	Federal AL Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through Texas Education Agency:			
School Breakfast Program	10.553	71402001	\$ 21,303
School Breakfast Program - COVID-19	10.553	52402001	77,156
National School Lunch Program	10.553	71302001	43,961
National School Lunch Program - COVID-19	10.555	52302001	126,203
Passed through Texas Department of Agriculture:			
National School Lunch Program - USDA Commodities	10.555	3001201	449,289
Total Child Nutrition Cluster			717,912
Child and Adult Care Food Program	10.558	N/A	11,354,007
Total U.S. Department of Agriculture			12,071,919
U.S. Department of Education:			
Passed through Texas Education Agency:			
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010A	21610101057848 / 21610141057848	5,234,537
Passed through Region X Education Service Center:			
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010A	2061014057848	52,502
Total CFDA 84.010			5,287,039
Passed through Texas Education Agency:			
Special Education Grants to States (IDEA, Part B)	84.027A	206600010578486000 / 216600010578486000	2,917,933
Charter School Program	84.282A	1859010171100	1,976,900
Career and Technical Education - Basic Grants to States (Perkins V)	84.048A	20420006057848 / 21420006057848	241,980
Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act - COVID-19	84.425D	20521001057848	3,614,359
Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act - COVID-19 (PPRP)	84.425D	52102135	1,566,910
Total CFDA 84.425D			5,181,269
Student Support and Academic Enrichment Program	84.424A	21680101057848	350,547
Supporting Effective Instruction State Grants (Title II, Part A)	84.367A	21694501057848	552,118
English Language Acquisition State Grants (Title III, Part A)	84.365A	21671001057848	507,211
Total U.S. Department of Education			17,014,997
U.S. Department of Treasury			
Coronavirus Relief Fund	21.019	2020-CF-21019	779,388
Total Expenditures of Federal Awards			<u>\$ 29,866,304</u>

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See notes to schedule of expenditures of federal awards.

International Leadership of Texas, Inc.
Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) presents the activity of all applicable federal award programs of ILTexas. The information in this Schedule is presented in accordance with the 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).

Because the Schedule presents only a selected portion of the operations of ILTexas, it is not intended to and does not present the financial position, changes in net assets or cash flows of ILTexas.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in Uniform Guidance, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. ILTexas has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

2. Food Commodities

Food commodities are recognized as federal expenditures when distributed. Distributed food is reported in the Schedule under the National School Lunch Program and is valued based on amounts reported to ILTexas by the TDA. These amounts are considered to be non-cash assistance to ILTexas.

ILTexas received non-cash assistance in the form of food commodities totaling \$449,289 for the year ended June 30, 2021.