

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**

**AUGUST 31, 2010**

**William E. Brown, III  
CERTIFIED PUBLIC ACCOUNTANT**

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**AUGUST 31, 2010**  
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**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY  
AUGUST 31, 2010**

**CERTIFICATE OF THE BOARD**

NAME OF SCHOOL: A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY  
COUNTY: DALLAS  
CO.DIST. NUMBER: 057-816

We, the undersigned, certify that the attached annual financial reports of the above-named charter School were reviewed and X approved \_\_\_disapproved for the year ended August 31, 2010, at a meeting of the Investment Committee of the board of directors of such school district on 25<sup>th</sup> day of February, 2011.

  
Signature of Board Member

  
Signature of Board Member

WILLIAM E. BROWN, III, CPA  
100 DECKER COURT, SUITE 160  
Irving, Texas 75062

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
A.W. Brown Fellowship Leadership Academy  
Dallas, Texas

I have audited the accompanying statements of financial position of A. W. Brown Fellowship Leadership Academy as of August 31, 2010 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the project's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of A. W. Brown Fellowship Leadership Academy as of August 31, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 23, 2011, on my consideration of A. W. Brown Fellowship Leadership Academy's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose 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* and should be considered in assessing the results of our audit.

The accompanying schedules of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements.

Auditor in charge of the engagement

*William E. Brown, III CPA*

Certified Public Accountant

Irving, Texas  
February 23, 2011

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Statement of Financial Position**  
**As of August 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 1,095,044	173,013
Cash - temporarily restricted	0	1,417,481
Accounts receivable - TEA	1,082,988	1,369,144
Other receivables	33,206	16,880
Prepaid expenses	82,519	27,047
Total current assets	2,293,757	3,003,565
Investments at market value	2,145,682	2,283,292
Property, Plant and equipment		
Land	4,052,011	1,842,413
Buildings and improvements	12,952,971	11,848,669
Construction in progress	258,857	0
Furniture and equipment	1,544,206	1,409,283
Total property and equipment	18,808,045	15,100,365
Less: Accumulated Depreciation	(2,665,514)	(2,006,268)
Total property and equipment, net	16,142,531	13,094,097
Other Assets		
Deposits	12,868	11,750
Unamortized issuance costs net of amortization	1,905,816	1,701,931
Total Other Assets	1,918,684	1,713,681
Restricted Assets - cash - bond covenants	0	1,645,046
<b>TOTAL ASSETS</b>	<u><u>22,500,654</u></u>	<u><u>21,739,681</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	195,163	118,800
Accrued liabilities	138,113	194,687
Line of credit at bank		1,873,643
Current portion of long-term debt	1,009,333	310,000
Total current liabilities	1,342,609	2,497,130
Long-Term Debt	13,544,328	12,375,000
Total Liabilities	14,886,937	14,872,130
Net Assets		
Unrestricted	1,093,851	1,053,675
Temporarily restricted	6,519,866	5,813,876
Total Net Assets (Deficit)	7,613,717	6,867,551
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 22,500,654</u></u>	<u><u>21,739,681</u></u>

THE NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Statement of Activities**  
**As of August 31, 2010 and 2009**

			<u>Totals</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010</u>	<u>2009</u>
<b>Revenues</b>				
Local support:				
5740 Other Revenues from Local Sources	\$ 40,176	232,183	272,359	384,202
State program revenues				
5810 Foundation School Program Act Revenues		10,172,001	10,172,001	9,049,446
5820 State Program Revenues Distributed by the TEA	0	355,927	355,927	254,214
Total state program revenues	0	10,527,928	10,527,928	9,303,660
Federal program revenues:				
5920 Federal Revenues Distributed by the TEA	0	1,773,008	1,773,008	1,421,496
	0	1,773,008	1,773,008	1,421,496
Net assets released from restrictions:				
Restrictions satisfied by payments	11,827,129	(11,827,129)	0	0
Total Revenues	11,867,305	705,990	12,573,295	11,109,358
<b>Expenses</b>				
11 Instructions	6,065,369	0	6,065,369	5,048,740
13 Curriculum Development and Instructional	179,605	0	179,605	168,227
21 Instructional School Leadership	132,883	0	132,883	
23 School Leadership	233,025	0	233,025	377,622
31 Guidance, Counseling and Evaluation Services	207,753	0	207,753	41,240
33 Health Services	17,885	0	17,885	13,723
35 Food Services	768,170	0	768,170	716,753
36 Co-curricular/Extracurricular Activities	118,344	0	118,344	89,194
41 General Administration	922,106	0	922,106	932,386
51 Plant Maintenance & Operations	1,185,237	0	1,185,237	1,101,579
52 Security	164,928	0	164,928	128,037
53 Data Processing Services	283,613	0	283,613	226,504
71 Interest Expense	1,548,211	0	1,548,211	1,137,537
Total Expenses	11,827,129	0	11,827,129	9,981,542
Change in Net Assets	40,176	705,990	746,166	1,127,816
Net Assets, beginning of year	1,053,675	5,813,876	6,867,551	5,412,422
Net Assets, ending of year	\$ 1,093,851	6,519,866	7,613,717	6,540,238

THE NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Statement of Cash Flows**  
**As of August 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Reconciliation of change in net assets to net cash provided by other operating activities:		
Change in net assets	\$ 746,166	1,455,129
Adjustments to change in net assets:		
Depreciation and amortization	659,246	524,243
Amortization of issuance cost	(203,885)	91,483
Other assets	(17,444)	667
Accounts receivable	286,156	(612,094)
Restricted cash	1,417,481	(337,301)
Restricted for bond reserves	1,645,046	2,184,945
Increase (Decrease) in liabilities		
Accounts payable	76,363	(5,658)
Accrued liabilities	(56,574)	111,104
Net cash provided by operating activities	<u>4,552,555</u>	<u>3,412,518</u>
Cash flows from investing activities:		
Purchase investments	(3,707,680)	(3,003,971)
Purchase of equipment and other capital assets	137,610	(76,570)
Net cash provided by investing activities	<u>(3,570,070)</u>	<u>(3,080,541)</u>
Cash flows from financing activities:		
Loan to repurchase and defease bonds	15,400,000	1,873,643
Bond and loan payments and repurchases	(15,395,018)	(2,395,000)
Net cash provided by financing activities	<u>4,982</u>	<u>(521,357)</u>
Net increase (decrease) in cash	987,467	(189,380)
Cash at beginning of year	173,013	322,719
Cash at ending of year	\$ <u>1,160,480</u>	<u>133,339</u>
<b>Supplementary Information:</b>		
Loans to capital assets: -0-	\$ 1,635,000	0
Interest Paid: \$874,522	\$ 968,000	1,011,696
Income taxes paid	EXEMPT	EXEMPT
No cash equivalents are held.		

THE NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2010**

**Note 1: Summary of Significant Accounting Policies**

The general-purpose financial statements of A. W. Brown Fellowship Leadership Academy were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The Charter Holder's sole purpose is to operate the A W Brown Fellowship Charter School.

***Reporting Entity***

The corporation is a not-for-profit organization incorporated in the State of Texas in July 1999, as A. W. Brown Fellowship Educational Learning Center, which has as its sole operations the A.W. Brown Fellowship Charter School, and then in 2010 it changed its name to A. W. Brown Fellowship Leadership Academy. The school is exempt from federal income taxes pursuant to Section 501(c) (3) of the Internal Revenue Code. A Board of Directors comprised of eleven members governs the corporation. 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. Since the corporation received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

***Organization***

A.W. Brown Fellowship Leadership Academy is an open enrollment charter school, which opened in August 1999. The Contract for Charter was granted by the State Board of Education of the State of Texas pursuant to Chapter 12 of the Texas Education Code, which expires August, 2013. The charter school's programs include classroom instruction and Public Charter Schools, Foundation Formula, School Breakfast, Title I Part A, Title VI Formula, Title VI Class Size Reduction, Title VI Innovative Education, TIF, and Technology Allotment. The charter school is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Accordingly, the financial statements do not include a provision for income taxes.

***Basis of Presentation***

The accompanying general-purpose financial statements represent the only activity of the School and have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, management made certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

**Unrestricted** – net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted** – net assets subject to donor-imposed stipulations or otherwise restricted that may or will be met, either by actions of the corporation, the charter school and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently restricted** – net assets required to be maintained in perpetuity with only the income to be used for the charter school's activities due to donor-imposed restrictions.

***Contributions***

The corporation accounts for contributions in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.



**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2010**

**Note 1: Summary of Significant Accounting Policies - continued**

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

***Cash and Cash Equivalents***

Cash and investment instruments with an original maturity of three months or less to be cash equivalents.

***Capital Assets***

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the corporation as assets with an individual cost of more than \$500. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost. The cost of issuance of the bonds is being amortized over the life of each bond.

***Recent Accounting Pronouncements***

In June 2009, the FASB issued a standard that established the FASB Accounting Standards Codification (the "ASC"), which effectively amended the hierarchy of U.S. generally accepted accounting principles ("GAAP") and established only two levels of GAAP, authoritative and non-authoritative. All previously existing accounting standard documents were superseded, and the ASC became the single source of authoritative, nongovernmental GAAP. All other non-grandfathered, non-SEC accounting literature not included in the ASC became non-authoritative. The ASC was intended to provide access to the authoritative guidance related to a particular topic in one place. New guidance issued subsequent to June 30, 2009 will be communicated by the FASB through Accounting Standards Updates. The ASC was effective for consolidated financial statements for annual reporting periods ending after September 15, 2009. The Chamber and Affiliates have adopted and applied the provisions of the ASC for the Chamber and Affiliates' consolidated financial statements, and has eliminated references to pre-ASC accounting standards throughout the consolidated financial statements. The Chamber and Affiliates' adoption of the ASC did not have a material impact on the Chamber and Affiliates' consolidated financial statements.

In September 2006, FASB issued authoritative guidance on ASC topic *Fair Value Measurements and Disclosures* of the FASB Accounting Standards codification. This guidance defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This guidance is effective for consolidated financial statements issued for fiscal years beginning after November 15, 2008 for both financial and nonfinancial assets and liabilities. The Chamber and Affiliates' adoption of the ASC did not have a material impact on the Chamber and Affiliates' consolidated financial statements.

In August 2009, the FASB issued new guidance on ASC topic *Fair Value Measurements and Disclosures* of the FASB Accounting Standards Codification. This guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of certain prescribed techniques. This amendment also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. It also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This new guidance is effective for the first reporting period beginning after issuance of this pronouncement (August 26, 2009). The Chamber and Affiliates' adoption of the ASC did not have a material impact on the Chamber and Affiliates' consolidated financial statements.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2010**

**Note 1: Summary of Significant Accounting Policies - continued**

***Recent Accounting Pronouncements - continued***

In September 2009, the FASB issued new guidance on ASC topic *Income Taxes* providing implementation guidance on accounting for uncertainty in income taxes with respect to entity-level taxes, pass-through entities or tax-exempt not-for-profit entities, and groups of related entities comprised of both taxable and nontaxable entities. Additionally, the new guidance eliminates the disclosures requiring a tabular reconciliation of unrecognized tax benefits and the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate. The amendments are effective as of September 15, 2009. The Chamber and Affiliates' adoption of the ASC did not have a material impact on the Chamber and Affiliates' consolidated financial statements.

**USE OF THE TERM OPERATIONS:** Means the activities in fulfilling the mission of the School.

***Fair Value of Financial Statements***

The carrying amounts of the Chamber and Affiliates' cash, money market funds, and accounts approximate their fair values.

***Fair Value Measurements***

FASB ASC 820 *Fair Value Measurements and Disclosures* (formerly SFAS No. 157 "Fair Value Measurements"), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below: Level 1 -- that the Chamber and Affiliates has the ability to access. Level 2--Inputs to the valuation methodology include: Quoted prices for similar assets or liabilities in active markets;

***Fair Value Measurements***

- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2010. *Certificate of Deposit:* The fair value of certificates of deposit is based on amortized cost or original cost plus accrued interest and is classified in Level 2 of the fair value hierarchy.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended August 31, 2010**

**Note 2: Capital Assets**

Capital assets at August 31, 2010 and 2009 were as follows:

	2010	2009
Equipment	\$ 1,544,206	1,842,413
Buildings and Improvements (construction 2003)	12,952,971	11,848,669
Construction in progress	258,857	0
Land	4,052,011	1,409,283
Total property and equipment	\$ 18,808,045	15,100,365

Depreciation expensed in the year ended August 31, 2010 was \$ 659,246 and 2009 \$524,243.

Capital assets acquired with public funds received by the corporation for the operation of the Charter School constitute public property pursuant to Chapter 12 of the Texas Education Code. Equipment of \$146,104 at cost is not subject to state and federal claims.

**Note 3: Long-Term Debt**

The School has entered into a loan agreement for \$15,325,000 from Regions Bank, et al, on November 12, 2009. The loan has two components:

Fixed rate of 3.98% until November 12, 2016 - Balloon at 7th year.	\$ 13,774,883	955,000
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The School has entered into a loan agreement for \$815,000 from Regions Bank, et al, on November 12, 2009. The loan has two components:

Variable rate, 2.5% above YBOR until November 12, 2016 - Balloon at 7th year.	778,778	54,333
Total debt	\$ 14,553,661	1,009,333
Due in one year	(1,009,333)	
Due after one year	13,544,328	

Year Ended August 31,	<u>Principal</u>	<u>Interest</u>
2010	\$ 1,009,333	564,796
2011	1,009,333	528,736
2012	1,009,333	486,592
2013	1,009,333	441,928
2014	1,009,333	400,974
Thereafter	9,506,996	3,771,008
	\$ 14,553,661	6,194,034

**Unamortized Bond Discount** is \$1,905,816. The cost of securing the new financing and the unamortized bond issuance costs remaining from the Schools issuance of bonds in 2004, 2005 and 2006 is being amortized over the life of the new loans, at 15 year amortization, using the sum-of-the-years-digits method. Current year amortization was 2010 \$272,259 and 2009 \$91,483 which is charged to debt service expense as interest.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2010**

**Note 3: Long-Term Debt - continued**

In 2009 the School repurchased \$2,100,000 of outstanding bonds and in 2010 it repurchased \$5,200,000 in bonds outstanding. Also in 2010, it accomplished an in substance defeasance of the remaining bonds of \$7,485,000 by purchasing federal government securities (SLGS) to be held trust at Regions Bank in the amount \$8,509,976. The transaction is designed so that the federal securities and their earnings offset the required interest and principal payments due on the defeased bonds. In the event those securities and earnings should fall short the School may be responsible at some time in the future. The repurchase and defeasance resulted in an accumulative loss for both years of approximately \$246,000; however, the School has projected a \$6,400,000 savings in interest costs by reducing the maturity and interest rate of its debt.

**Unamortized Bond Discount** is \$1,905,816. The cost of securing the new financing and the unamortized bond issuance costs remaining from the Schools issuance of bonds in 2004, 2005 and 2006 is being amortized over the life of the new loans, at 15 year amortization, using the sum-of-the-years-digits method. Current year amortization was 2010 \$272,259 and 2009 \$91,483 which is charged to debt service expense as interest.

**Note 4: Pension Plan Obligations**

***Plan Description***

The charter school contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is 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. The System provides service and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in the Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

***Funding Policy***

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the charter school's covered payroll. The charter school's employees' contributions to the System for the year ending August 31, 2010 and 2009 were \$ 357,973 and \$ 309,559 respectively, equal to the required contributions for each year. The School has also established a 403(b) plan for the employees. This 403(b) plan provides the option for the School to make contributions to the 403(b) plan for distribution to the employees based upon a five year vesting schedule. In 2010 the School made a \$45,000 contribution to the plan.

**Note 5: Health Care Coverage**

During the year ended August 31, 2010, employees of the charter school were covered by a Health Insurance Plan (the Plan). The charter school contributed \$195 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2010**

**Note 6: Temporarily Restricted Net Assets**

	<u>2010</u>	<u>2009</u>
420 - Student Foundation Program	\$ <u>6,519,866</u>	<u>5,813,876</u>

**Note 7: Related Parties**

The Chief Executive Officer (CEO) is married to the principal. Three teachers and the Chief Executive Officer serve on the board.

**Note 8: Commitments and Contingencies**

The charter school receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

The School has operating leases for equipment that requires monthly installments and has the following scheduled payments in 2011 thru 2014, respectively: \$72,850, \$42,294, \$19,041, \$932, and \$0

**Note 9: Donated Goods and Services**

Donated goods and services are not recorded at the market value on the date of contribution. The Board has implemented the securing of a separate entity to raise funds for the School and student scholarships.

**Note 10: Estimates**

Management has elected to use generally accepted accounting principles and in doing so is required to use estimates in certain account balances and notes to the financial statements. Actual results could differ from those estimates.

**Note 11: Concentrations**

The School receives substantially all of its funding from Texas Foundation Funds through the Texas Education Agency (TEA).

Its classes are dependent primarily on students from a specific geographical area. The students have choices of charter, private and public schools.

**Note 12: Compensated Absences**

Compensated absences are not recorded for a lack of a reasonable estimate.

**Note 13: Fair Value**

Fair Value of assets and liabilities are approximately the carrying value.

**NOTE 14: Maintenance Program**

The School has not set up a formal long-term maintenance program.

**NOTE 15: Program Costs**

The Total expenditures of \$9,981,542 reflect direct program costs of \$7,911,619, administrative expenses of \$932,386 and interest of \$1,135,537.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2010**

**NOTE 16: Investments**

The School acquired Securities, Bank certificates of deposit and equity mutual funds. With a cost of 2009 Cost \$2,206,785; Market \$2,283,292 and 2008: Cost 2,206,722 and Market \$2,206,722. Change in Market value over cost in 2009 was \$71,505.

**NOTE 17: Subsequent Events**

The School has received approval from the Texas Bond Review Board in January 2010 to issue Qualified School Construction Bonds for \$5,250,000. The purpose of these bonds will be to construct a 1,482 seat auditorium and reimburse the general fund \$2,800,000 for land acquisition. In November 2009 the school purchased 105 acres of land for future expansion.

WILLIAM E. BROWN, III, CPA  
100 DECKER COURT, SUITE 160  
IRVING, TEXAS 75062

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS

Board of Directors  
A. W. Brown Fellowship Leadership Academy  
Dallas, Texas

I have audited the financial statements of A. W. Brown Fellowship Leadership Academy (a nonprofit organization) as of and for the year ended August 31, 2010, and have issued my report thereon dated February 24, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered A. W. Brown Fellowship Leadership Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinion on the effectiveness of A. W. Brown Fellowship Leadership Academy's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether A. W. Brown Fellowship Leadership Academy's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under

Government Auditing Standards.

We noted certain matters that we reported to management of A. W. Brown Fellowship Leadership Academy in a separate letter dated February 23, 2011.

Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect A. W. Brown Fellowship Leadership Academy's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

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

*Wm E Brown, III CPA*

February 23, 2011  
Irving, Texas



**William E. Brown III, CPA  
Certified Public Accountant  
100 DECKER COURT, SUITE 160  
Irving, Texas 75062**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE WITH OMB CIRCULAR A-133**

The Board of Directors  
A. W. Brown Fellowship Leadership Academy  
Dallas, Texas

I have audited A. W. Brown Fellowship Leadership Academy's compliance with the types of compliance requirements described in the *(OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of A. W. Brown Fellowship Leadership Academy's major federal programs for the year ended August 31, 2010. A. W. Brown Fellowship Leadership Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of A. W. Brown Fellowship Leadership Academy's management. My responsibility is to express an opinion on A. W. Brown Fellowship Leadership Academy's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards; the standards generally accepted in the United States of America; the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that I 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 A. W. Brown Fellowship Leadership Academy's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on A. W. Brown Fellowship Leadership Academy's compliance with those requirements.

In my opinion, A. W. Brown Fellowship Leadership Academy complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2010. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which I did not consider significant and which is required to be reported in accordance with OMB Circular A-133 at 2010-1 in the Schedule of Questioned Costs that follows.

Internal Control Over Compliance

Management of A. W. Brown Fellowship Leadership Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered A. W. Brown Fellowship Leadership Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of A. W. Brown Fellowship Leadership Academy'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 or corrected, on a timely basis.

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



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE WITH OMB CIRCULAR A-133 - Continued

This report is intended solely for the information and use of audit committee, board of directors and management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Uma E Brown, III CPA*

February 23, 2011  
Irving, Texas

**A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS and Prior Year Findings**  
**For the Year Ended August 31, 2010**

**I. Summary of Auditor's Results**

- |  |                     |
|--|---------------------|
| 1. Type of auditor's report issued on the financial statements of the Auditee  | Unqualified         |
| 2. Significant Deficiencies relating to the audit of the financial statements  | No                  |
| 3. Instances of noncompliance material to the financial statements of the auditee disclosed by the audit of the financial statements   | Yes                 |
| 4. Significant Deficiencies relating to the audit of the major award programs reported in the audit of the financial statements at 2010-1 Opinion on the report on compliance for major federal award programs | Yes                 |
| 5. Audit findings that are required to be reported in this Schedule in accordance with Section 510 (a) of OMB Circular A-133 :   | Unqualified<br>None |
| 6. Major Programs:   |                     |
| 84.010A      TITLE I, PART A-IMPROVING BASICS  | \$376,673           |
| 84.394A                      ARRA TTL XIV SFSF   | 202,342             |
| 84.389A      TITLE I, PART A - ARRA/STIMULUS   | 298,745             |
| 84.027A                      IDEA-B FORMULA  | 202,342             |
| 84.173A                      IDEA-B PRESCHOOL  | 1126                |
| 84.391A                      IDEA-B FORMULA - ARRA - LEA   | 260,345             |
| 84.392A                      IDEA-B PRESCHOOL - ARA - LEA  | 6,729               |
|  |                     |
| 8. The dollar threshold used to distinguish between Type A and Type B programs   | \$ 300,000          |
| 9. Auditee qualified as a low-risk auditee   | High                |

**A. W. BROWN FELLOWSHIP CHARTER SCHOOL  
Schedule of Findings and Questioned Costs  
For the Year Ended August 31, 2010**

2010-1

**BACKGROUND CHECKS / HUMAN RESOURCES**

Condition:	<p>We randomly selected a sample of 40 employee files out of a population of 208 for detail testing of some key components of the Human Resource and Payroll processes. Our review suggests the following:</p> <ol style="list-style-type: none"><li>1) 23 TEA Non-certified employees had their criminal background check processed <i>after</i> their date of hire;</li><li>2) The School is just now beginning to implement the new fingerprint requirements.</li><li>3) Background checks for 5 employees could not be located.</li></ol>
Criteria:	<p>Sound business practices and Senate Bill 9, passed in 2007 by the Texas Legislature, require(s) that fingerprint-based criminal background reviews and name-based criminal background check reviews for certain individuals be submitted before they may begin working for a school or district.</p>
Cause:	<p>A. W. Brown Fellowship Charter School, like many schools, is still in the process of incorporating the new requirements of Senate Bill 9 (passed in 2007) into their standard hiring process. In addition, the school does not have documented policies and procedures for the human resource and payroll processes which incorporate the new Senate Bill 9 requirements.</p>
Effect:	<p>Non-compliance with Senate Bill 9 and the Texas Education Agency. If the school does not properly submit background checks on potential employees before they are hired, they increase the risk of hiring ineligible staff.</p>
Recommendation:	<p>As the school continues to implement the new requirements into their hiring process, they should document the new procedures. Documented policies and procedures establish accountability, and assign responsibility to ensure tasks are completed timely.</p>
School response:	<p>The School agrees with the recommendations and will implement them as soon as possible</p>

**A.W. BROWN FELLOWSHIP CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS and Prior Year Findings**  
**For the Year Ended August 31, 2010**

**2009 -1                      INTERNAL CONTROL OVER REPORTING**

Condition:                      Prior year audit adjustments had not been recorded in the books when presented for the 2009 audit.

Criteria:                        The adjustments are to be recorded in the books and records.

Effect:                          The books and records do not reflect the adjusted balances from the prior year.

Recommendation:            The School should adhere to its policy and procedures requiring the books and records are timely adjusted as required.

Response:                      The School will review monitoring procedures and implement corrective action. The entries were input immediately.

Contact:                        Mr. James Montfort 972-709-4700

Status: This finding was cleared in 2010.

**2009-2                      HUMAN RESOURCES DOUMENTATION**

Condition:                      Missing documentation regarding background checks and applications.

Criteria:                        Policies and procedures require this documentation to ascertain eligibility of applicants before hiring. The documentation is required to support the procedures were followed.

Effect:                          If the policies are not followed the hiring of ineligible personnel may occur. Lack of compliance may expose School to liabilities.

Recommendation:            The School should adhere to its policies and review the procedures to ensure complete documentation and proper hiring practices.

Response:                      The School will review its policies and implement procedures to assure the files are complete and policies are followed.

Contact:                        Mr. James Montfort 972-709-4700

STATUS: This finding continued into 2010 at 2010-1.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Schedule of Expenditure of Federal Awards**  
**For the Year Ended August 31, 2010**

<u>CFDA</u>	<u>Name of Grant</u>	<u>TEXAS EDUCATION AGENCY</u>	<u>Amount</u>
<u>United States Department of Education</u>			
<u>Passed Through State Department of Education:</u>			
10.553	School Breakfast Program (SBP)	71401001	\$ 137,252.00
10.555	National School Lunch Prg-NSLP	71301001	459,221.00
			<hr/> 596,473.00
<u>United States Department of Agriculture</u>			
<u>Passed through State Department of Education:</u>			
84.010A	TITLE I, PART A-IMPROVING BASI	10610101057816	376,673.00
84.394A	ARRA TTL XIV SFSF	10557001057816	202,342.00
84.389A	TITLE I, PART A - ARRA/STIMULU	10551001057831	298,745.00
84.027A	IDEA-B FORMULA	106600010578166000	202,342.00
84.173A	IDEA-B PRESCHOOL	106610010578166000	1126.00
84.391A	IDEA-B FORMULA - ARRA - LEA	10554001057816	260,345.00
84.392A	IDEA-B PRESCHOOL - ARA - LEA	10555001057816	6,729.00
84.386A	TITLE II, PART D- TECHNOLOGY	10553001057816	9,331.00
84.318X	TITLE II, PART D-ENHANCING EDU	10630001057816	3,191.00
84.367A	TITLE II, PART A-TEACHER & PRI	10694501057816	70,079.00
84.186A	TITLE IV, PART A-SAFE & DRUG-F	10691001057816	4,883.00
			<hr/> 1,435,786.00
			\$ <hr/> 2,032,259.00

Note 1: Standard Financial Accounting System

For all federal programs, the corporation used the net asset classes and codes specified by the Texas Education Agency in restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor.

Federal and state financial assistance is generally accounted for in temporarily restricted net asset code. The accompanying schedule of federal awards is prepared on the cash receipts basis. The information may vary from that presented elsewhere in these financial statements which may be presented on the accrual basis.

## Supplemental Data

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Schedule of Expenses**  
**For the Year Ended August 31, 2010**

Expenses	<u>2010</u>	<u>2009</u>
6100 Payroll Costs	\$ 6,709,507	5,687,030
6200 Professional and Contracted Services	1,711,323	1,490,539
6300 Supplies and Materials	820,137	675,642
6400 Other Operating Costs	1,037,951	990,794
6500 Debt	<u>1,548,211</u>	<u>1,137,537</u>
Total Expenses	\$ <u><u>11,827,129</u></u>	<u><u>9,981,542</u></u>

SEE ACCOMPANYING ACCOUNTANT'S REPORT.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Schedule of Capital Assets**  
**For the Year Ended August 31, 2010**

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements:	\$ 0	4,052,011	0
1520 Buildings and Improvements:	39,628	12,423,533	748,667
1539 Furniture and Equipment:	89,667	848,517	606,022
Total Property and Equipment	\$ 129,295	17,324,061	1,354,689

SEE ACCOMPANYING ACCOUNTANT'S REPORT.



**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Budgetary Comparison Schedule**  
**For the Year Ended August 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Local support				
5470 Other Revenues from Local Sources	\$ 241,129	241,129	272,359	31,230
State program revenues				
5810 Foundation School Program Act Revenues	9,736,310	9,736,310	10,527,928	791,618
Federal program revenues:				
5920 Federal Revenues Distributed byTEA	<u>2,378,058</u>	<u>2,110,058</u>	<u>1,773,008</u>	<u>(337,050)</u>
Total Revenues	<u>12,355,497</u>	<u>12,087,497</u>	<u>12,573,295</u>	<u>485,798</u>
<b>Expenses</b>				
11 Instruction	5,080,939	5,572,939	6,065,369	492,430
13 Curriculum Development and Instructional	169,200	169,200	179,605	10,405
21 Instruction School Leadership	0	136,000	132,883	(3,117)
23 School Leadership	407,312	281,312	233,025	(48,287)
31 Guidance, Counseling and Evaluation Services	65,500	193,500	207,753	14,253
33 Health Services	6,000	20,000	17,885	(2,115)
35 Food Services	715,950	792,950	768,170	(24,780)
36 Co-curricular/Extracurricular Activities	29,500	114,000	118,344	4,344
41 General Administration	1,516,585	916,585	922,106	5,521
51 Plant Maintenance and Operations	901,821	1,031,821	1,185,237	153,416
52 Security	115,000	115,000	164,928	49,928
53 Data Processing Services	758,196	297,696	283,613	(14,083)
71 Debt Service	<u>1,049,612</u>	<u>1,049,612</u>	<u>1,548,211</u>	<u>498,599</u>
Total Expenses	<u>10,815,615</u>	<u>10,690,615</u>	<u>11,827,129</u>	<u>1,139,633</u>
Change in Net Assets	<u>1,539,882</u>	<u>1,396,882</u>	<u>746,166</u>	
Net Assets, beginning of year	<u>1,053,675</u>	<u>5,813,876</u>	<u>6,867,551</u>	
Net Assets, ending of year	\$ <u>2,593,557</u>	<u>7,210,758</u>	<u>7,613,717</u>	

SEE ACCOMPANYING ACCOUNTANT'S REPORT.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Discussion of Budgetary Variances of 10% or Greater**  
**For the Year Ended August 31, 2010**

5470 Other Revenues from Local Sources	\$ 12.95%	Insurance settlement
5920 Federal Revenues Distributed by TEA	-15.97%	Pending School' Libraries application
23 School Leadership	-44.16%	Lower supply and professional contracts
33 Health Services	-10.58%	Added in-house dental
51 Plant Maintenance and Operations	31.43%	Sprinkler System emergency repairs
52 Security	43.42%	Required increase in police officers
71 Debt Service	47.50%	Defeasance of bonds

SEE ACCOMPANYING ACCOUNTANT'S REPORT.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY  
TEXTBOOK PROTOCOL  
For the Year Ended August 31, 2010**

The School uses a textbook coordinator to oversee ordering, maintenance and distribution of the textbooks. The books are maintained in a locked environment. The coordinator collects the textbooks at year end and distributes them at the beginning of each year.

SEE ACCOMPANYING ACCOUNTANT'S REPORT.

