

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

**AUGUST 31, 2011**

**Robert E. Allen  
CERTIFIED PUBLIC ACCOUNTANT**

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**AUGUST 31, 2011**  
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**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY  
AUGUST 31, 2011**

**CERTIFICATE OF THE BOARD**

NAME OF SCHOOL: A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY  
COUNTY: DALLAS  
CO.DIST. NUMBER: 057816

We, the undersigned, certify that the attached annual financial reports of the above named charter School were reviewed and \_\_\_\_approved \_\_\_\_disapproved for the year ended August 31, 2011, at a meeting of the Investment Committee of the board of directors of such school district on \_\_\_\_ day of January, 2012.

  
Signature of Board Member

  
Signature of Board Member

ROBERT E. ALLEN  
CERTIFIED PUBLIC ACCOUNTANT  
P O BOX 210097  
DALLAS, TX 75211

INDEPENDENT AUDITOR'S 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, 2011 and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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, 2011 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 January 26, 2012, 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 I 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 my audit.

My audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A133, *Audits of States, Local Governments, and NonProfit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the financial statements themselves, and other additional procedures in accordance with auditing standards generally acceptable in the United States of America.

In my opinion, the information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Auditor in charge of the engagement



Certified Public Accountant

Dallas, Texas  
January 26, 2012

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Statement of Financial Position**  
**As of August 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b><u>Assets</u></b>		
Current Assets		
Cash and cash equivalents	\$ 998,955	1,095,044
Accounts receivable TEA	1,172,387	1,082,988
Other receivables	61,324	33,206
Prepaid expenses	77,116	82,519
Total current assets	<u>2,309,782</u>	<u>2,293,757</u>
Investments at market value	4,542,982	2,145,682
Property, Plant and equipment		
Land	4,310,549	4,052,011
Buildings and improvements	16,063,057	12,952,971
Construction in progress	0	258,857
Furniture and equipment	1,771,654	1,544,206
Total property and equipment	<u>22,145,260</u>	<u>18,808,045</u>
Less: Accumulated Depreciation	<u>(3,304,488)</u>	<u>(2,665,514)</u>
Total property and equipment, net	<u>18,840,772</u>	<u>16,142,531</u>
Other Assets		
Deposits	2,868	12,868
Unamortized issuance costs net of amortization	1,816,547	1,905,816
Total Other Assets	<u>1,819,415</u>	<u>1,918,684</u>
<b>TOTAL ASSETS</b>	<b><u>27,512,951</u></b>	<b><u>22,500,654</u></b>
<b><u>Liabilities and Net Assets</u></b>		
Current Liabilities		
Accounts payable	188,466	195,163
Accrued liabilities	118,182	138,113
Current portion of long-term debt	1,405,424	1,009,333
Total current liabilities	<u>1,712,072</u>	<u>1,342,609</u>
Long-term Debt	<u>17,259,687</u>	<u>13,544,328</u>
Total Liabilities	<u>18,971,759</u>	<u>14,886,937</u>
Net Assets		
Unrestricted	1,227,908	1,093,851
Temporarily restricted	7,313,284	6,519,866
Total Net Assets (Deficit)	<u>8,541,192</u>	<u>7,613,717</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 27,512,951</u></b>	<b><u>22,500,654</u></b>

THE NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Statement of Activities**  
**As of August 31, 2011 and 2010**

			Totals	
	Unrestricted	Temporarily Restricted	2011	2010
Revenues				
Local support:				
5740 Other Revenues from Local Sources	\$ 159,152	86,017	245,169	272,359
State program revenues				
5810 Foundation School Program Act Revenues		10,533,801	10,533,801	10,172,001
5820 State Program Revenues Distributed by the TEA	0	338,613	338,613	355,927
Total state program revenues	0	10,872,414	10,872,414	10,527,928
Federal program revenues:				
5920 Federal Revenues Distributed by the TEA	0	1,613,619	1,613,619	1,773,008
	0	1,613,619	1,613,619	1,773,008
Net assets released from restrictions:				
Restrictions satisfied by payments	11,778,632	(11,778,632)	0	0
Total Revenues	11,937,784	793,418	12,731,202	12,573,295
Expenses				
11 Instructions	6,097,367	0	6,097,367	6,065,369
13 Curriculum Development and Instructional	182,289	0	182,289	179,605
21 Instructional School Leadership	131,663	0	131,663	132,883
23 School Leadership	233,846	0	233,846	233,025
31 Guidance, Counseling and Evaluation Services	124,241	0	124,241	207,753
33 Health Services	37,184	0	37,184	17,885
35 Food Services	799,800	0	799,800	768,170
36 Cocurricular/Extracurricular Activities	71,467	0	71,467	118,344
41 General Administration	1,920,019	0	1,920,019	922,106
51 Plant Maintenance & Operations	1,166,777	0	1,166,777	1,185,237
52 Security	161,142	0	161,142	164,928
53 Data Processing Services	233,814	0	233,814	283,613
71 Interest Expense	622,522	0	622,522	1,548,211
81 Fundraising	21,596	0	21,596	0
Total Expenses	11,803,727	0	11,803,727	11,827,129
Change in Net Assets	134,057	793,418	927,475	746,166
Net Assets, beginning of year	1,093,851	6,519,866	7,613,717	6,867,551
Net Assets, ending of year	\$ 1,227,908	7,313,284	8,541,192	7,613,717

THE NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Statement of Cash Flows**  
**As of August 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of change in net assets to net cash provided by other operating activities:		
Change in net assets	\$ 927,475	746,166
<b>Adjustments to change in net assets:</b>		
Depreciation and amortization	638,974	659,246
Amortization of issuance cost	89,269	(203,885)
Other assets	(12,715)	(17,444)
Accounts receivable	(89,399)	286,156
Restricted cash	0	1,417,481
Restricted for bond reserves	0	1,645,046
Accounts payable	(6,697)	76,363
Accrued liabilities	(19,931)	(56,574)
	<u>1,526,976</u>	<u>4,552,555</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase investments	(3,337,215)	(3,707,680)
Purchase of equipment and other capital assets	(2,397,300)	137,610
Net cash provided by investing activities	(5,734,515)	(3,570,070)
Cash flows from financing activities:		
Loan to repurchase and defease bonds	5,250,000	15,400,000
Bond and loan payments and repurchases	(1,138,550)	(15,395,018)
Net cash provided by financing activities	4,111,450	4,982
Net increase (decrease) in cash	(96,089)	987,467
Cash at beginning of year	1,095,044	107,577
Cash at ending of year	\$ <u>998,955</u>	<u>1,095,044</u>
<b>Supplementary Information:</b>		
Loans to capital assets:	\$ 5,250,000	1,635,000
Interest Paid:	\$ 817,634	968,000
Income taxes paid	EXEMPT	EXEMPT

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, 2011**

**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 2011 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 thirteen 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.



**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2011**

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

**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.

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 are considered 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.

**Note 2: Capital Assets**

Capital assets at August 31, 2011 and 2010 were as follows:

	2011	2010
Equipment	\$ 1,771,654	1,544,206
Buildings and Improvements	16,063,057	12,952,971
Construction in progress	0	258,857
Land	4,310,543	4,052,011
Total property and equipment	\$ <u>22,145,260</u>	<u>18,808,045</u>

Depreciation expensed in the year ended August 31, 2011 was \$ 638,974 and 2010 \$659,246.

Capital assets acquired with state and federal 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.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2011**

**Note 3: Long-Term Debt**

	2011		2010	
	Outstanding	Due 1 Year	Outstanding	Due 1 Year
The School has entered into a loan agreement for \$15,140,000 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 7 <sup>th</sup> year.	\$ 12,733,333	955,001	13,774,883	955,000
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 7 <sup>th</sup> year.	724,445	54,333	778,778	54,333
Insurance note payable	81,652	81,652	0	0
The Academy entered into Taxable Education Construction Bonds, Qualified School Construction Bonds – Direct Pay at 4.5% plus a variable component and the tax credit reducing the rate to approximately 1.73%. The 2011Q bonds mature in 2026.	5,125,681	314,438	0	0
Total debt	18,665,111	1,405,424	14,553,661	1,009,333
Due in one year	(1,405,424)		(1,009,333)	
Due after one year	\$ 17,259,687		13,544,328	

Year Ended August 31,	2011		2010	
	Principal	Interest	Principal	Interest
2012	\$ 1,405,424	612,209	1,009,333	564,796
2013	1,329,287	564,550	1,009,333	528,736
2014	1,334,898	514,274	1,009,333	486,592
2015	1,340,609	467,610	1,009,333	441,928
2016	1,346,419	420,846	1,009,333	400,974
Thereafter	11,908,474	3,768,426	9,506,996	3,771,008
	\$ 18,665,111	6,347,915	14,553,661	6,194,034

**Unamortized Bond Discount** is \$1,816,547. The cost of securing the new financing and the unamortized bond issuance costs remaining from the Schools issuance of bonds in 2004, 2005, 2011 is being amortized over the life of the new loans, at 15 year amortization, using the sum-of-the-years-digits method. The Unamortized cost was increased by \$166,840 and current year amortization was 2011 \$273,340 and 2010 \$272,259 which was charged to debt service expense as interest.

**Bond Defeasance**

In 2009 the School repurchased \$2,100,000 of outstanding bonds and in 2011 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 in trust at Regions Bank in the amount \$8,509,976. The transaction is designed so that the federal securities and their earnings

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2011**

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

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 significant savings in interest costs by reducing the maturity and interest rate of its debt.

**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 787012698 or by calling (800) 8770123.

***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, 2011 and 2010 were \$ 417,779 and \$ 357,973 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 2011 the School made a \$45,000 contribution to the plan.

**Note 5: Health Care Coverage**

During the year ended August 31, 2011, 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.

**Note 6: Temporarily Restricted Net Assets – consist of:**

	2011	2010
417 State optional	\$ 485	0
299 Summer program	1,074	0
420 Student Foundation Program	7,311,725	6,519,866
	<u>\$ 7,313,284</u>	<u>6,519,866</u>

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2011**

**Note 7: Related Parties**

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 2012 thru 2016, respectively: \$118,661, \$94,171, \$91,773, \$8,679 and \$6,600.

**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 \$11,803,727 reflect direct program costs of \$9,239,590, administrative expenses of \$1,920,019, fundraising \$21,596 and debt service of \$622,522.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2011**

**NOTE 16: Investments**

The following information is provided about the Academy's investments in bonds, treasuries and certificates of deposits:

<u>Year End</u>	<u>Cost</u>	<u>Market</u>	<u>Net Change</u>
August 31, 2010	\$ 210,321	214,568	4,246
August 31, 2011	3,162,286	3,139,862	<u>(22,425)</u>
Net change during year			\$ <u>(26,671)</u>

**NOTE 17: Subsequent Events**

The board authorized \$5,000,000 for the purchase of additional land and the expansion of the Academy's existing facilities. The land is under contract.

**ROBERT E ALLEN**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**P O BOX 210097**  
**DALLAS, TX 75211**

**INDEPENDENT AUDIORS 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**

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

I have audited the financial statements of A. W. Brown Fellowship Leadership Academy, as of and for the year ended August 31, 2011, and have issued my report thereon dated January 26, 2012. 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 I auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of A. W. Brown Fellowship Leadership Academy's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization'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.

I 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, significant deficiencies or material weaknesses. I did not identify any 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 or other matters 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 January 26, 2012.

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.

  
Dallas, Texas  
January 26, 2012

**ROBERT E ALLEN  
CERTIFIED PUBLIC ACCOUNTANT  
P O BOX 210097  
DALLAS, TX 75211**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A133**

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

**Compliance**

I have audited A. W. Brown Fellowship Leadership Academy's compliance with the types of compliance requirements described in the *(OMB) Circular A133 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, 2011. 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 A133, *Audit of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A133 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, 2011. The results of my auditing procedures did not disclose instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A133.

**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 A133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of A. W. Brown Fellowship Leadership Academy's internal control over compliance.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACORANCE WITH OMB CIRCULAR A133  
continued**

*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 I consider to be *material weaknesses* as defined above.

A. W. Brown Fellowship Leadership Academy's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit A. W. Brown Fellowship Leadership Academy's responses and accordingly, I express no opinion on the responses.

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.

  
Dallas, Texas  
January 26, 2012



**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS and Prior Year Findings**  
**For the Year Ended August 31, 2011**

**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  | None        |
| 3. Instances of noncompliance material to the financial statements of the auditee disclosed by the audit of the financial statements | None        |
| 4. Significant Deficiencies relating to the audit of the major award programs reported in the audit of the financial statements.     | None        |
| 5. Opinion on the report on compliance for major federal award programs  | Unqualified |
| 6. Audit findings that are required to be reported in this Schedule in accordance with Section 510 (a) of OMB Circular A133          | None        |
| 7. Major Programs:   |             |

**U.S. DEPARTMENT OF AGRICULTURE**

National School Lunch Prg NSLP	10.555	CHILD NUTRITION	\$ 473,580
School Breakfast Program (SBP)	10.553	CHILD NUTRITION	<u>148,001</u>
<b>SUBTOTAL</b>			<u>621,581</u>

**U. S. DEPARTMENT OF EDUCATION**

ARRAIDEAB FORMULA ARRA LEA	84.391A	ELEMENTARY AND SECONDARY	63,391
IDEAB FORMULA	84.027A	ELEMENTARY AND SECONDARY	210,752
IDEAB PRESCHOOL	84.173A	ELEMENTARY AND SECONDARY	<u>1,070</u>
<b>SUBTOTAL</b>			<u>\$ 275,213</u>

- |  |            |
|--|------------|
| 8. The dollar threshold used to distinguish between Type A and Type B programs | \$ 300,000 |
| 9. Auditee qualified as a low-risk auditee                                     | No         |

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended August 31, 2011 - *continued***

**2010-1                      MAJOR PROGRAM TESTING – TITLE I, PART A, IMPROVING BASIC EDUCATION**

Condition:                      We performed financial and compliance audit procedures on the Title I Part A – Improving Basic Education program, net asset code 211. Our testing showed that the school is not consistently completing the forms/checklists used to verify that teachers (and paraprofessionals providing instructional support) are highly qualified. We also noted that when the form was completed, it did not have the signature of an Authorized Administrator. The form (*"Determining Highly Qualified Status Elementary Teacher (PK6<sup>th</sup>)"*) must be maintained in the teacher's service record or personnel file.

Criteria:                      Per the A133 Supplement issued by the Department of Education, "by the end of the 200506 school year, the [School] had to ensure that all teachers of core academic subjects, whether or not they work in a program supported with Title I, Part A funds, are highly qualified." "Core academic subjects" means English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. For those teachers that were *not* deemed highly qualified, an approved state plan to achieve that goal should be in place.

Effect:                      Non compliance with the A133 Supplement. Failure to show a good faith effort to hire highly qualified employees could result in the school's exclusion from the program.

Recommendation:                      School Administrators should conduct an internal audit on the personnel files to ensure every applicable employee has a properly completed Highly Qualified form. Existing forms should be traced to the source documents and reviewed for accuracy.

School response:                      We agree with the recommendation and will begin implementing it immediately.

Status:                      Closed. School trained two individuals to insure this process is followed.

**2010-2                      BACKGROUND CHECKS / HUMAN RESOURCES**

Condition:                      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:

- 1) 23 TEA Noncertified employees had their criminal background check processed *after* their date of hire;
- 2) The School is just now beginning to implement the new fingerprint requirements.
- 3) Background checks for 5 employees could not be located.

Criteria:                      Sound business practices and Senate Bill 9, passed in 2007 by the Texas Legislature, require(s) that finger print 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.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended August 31, 2011 - *continued***

**2010-2**

**BACKGROUND CHECKS / HUMAN RESOURCES – continued.**

Cause:	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.
Effect:	Noncompliance 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.
Recommendation:	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.
School response:	The School agrees with the recommendations and will implement them as soon as possible
Status:	Closed. The School trained two individuals to insure this process is followed.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Schedule of Expenditure of Federal Awards**  
**For the Year Ended August 31, 2011**

<u>SOURCE AGENCY AND DEPARTMENT</u>	<u>CFDA</u>	<u>PURPOSE</u>	<u>AGENCY NUMBER</u>	<u>EXPENDITURE</u>
TEXAS EDUCATION AGENCY				
U.S. DEPARTMENT OF AGRICULTURE				
National School Lunch Prg-NSLP	10.555	CHILD NUTRITION	71301001	\$ 473,580
School Breakfast Program (SBP)	10.553	CHILD NUTRITION	71401001	148,001
SUBTOTAL				<u>621,581</u>
U. S. DEPARTMENT OF EDUCATION				
ARRATITLE I, PART A ARRA/STIMULU	84.389A	ELEMENTARY AND SECONDARY	10551001057816	7,654
TITLE I, PART AIMPROVING BASI	84.010A	ELEMENTARY AND SECONDARY	11610101057816	353,190
SUBTOTAL				<u>360,844</u>
ARRAIDEAB FORMULA ARRA LEA	84.391A	ELEMENTARY AND SECONDARY	10554001057816	63,391
IDEAB FORMULA	84.027A	ELEMENTARY AND SECONDARY	116600010578166000	210,752
IDEAB PRESCHOOL	84.173A	ELEMENTARY AND SECONDARY	116610010578166000	1,070
SUBTOTAL				<u>275,213</u>
TITLE II, PART ATEACHER & PRI	84.367A	ELEMENTARY AND SECONDARY	11694501057816	59,096
ARRAT TL II, D TECHNOLOGY	84.386A	ELEMENTARY AND SECONDARY	10553001057816	321
TITLE III, PART A	84.031A	INSTITUTIONAL SERVICES	N/A	2,662
ARRA TTL XIV SFSF	84.394A	ELEMENTARY AND SECONDARY	11557001057816	217,828
SUMMER SCHOOL LEP	84.369A	ELEMENTARY AND SECONDARY	69551002	1,074
TOTAL FEDERAL GRANT EXPEDITURES				\$ <u>1,538,619</u>
FEDERAL REVENUES				
E- Rate Credits	\$	75,000		
Tax Credits Qualifying bonds	\$	<u>113,678</u>		

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Schedule of Expenditure of Federal Awards**  
**For the Year Ended August 31, 2011**

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, 2011**

	<u>2011</u>	<u>2010</u>
6100 Payroll Costs	\$ 7,166,492	6,709,507
6200 Professional and Contracted Services	1,930,663	1,711,323
6300 Supplies and Materials	770,573	820,137
6400 Other Operating Costs	1,313,477	1,037,951
6500 Debt	<u>622,522</u>	<u>1,548,211</u>
Total Expenses	\$ <u><u>11,803,727</u></u>	<u><u>11,827,129</u></u>

SEE ACCOMPANYING ACCOUNTANT'S REPORT.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Schedule of Capital Assets**  
**For the Year Ended August 31, 2011**

<b>Ownership Interest</b>				
	<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>TOTAL</u>
1510 Land and Improvements:	\$ 0	4,310,549	0	4,310,549
1520 Buildings and Improvements:	39,628	15,274,762	748,667	16,063,057
1539 Furniture and Equipment:	89,667	772,496	909,491	1,771,654
Total Property and Equipment	\$ 129,295	20,357,807	1,658,158	22,145,260

SEE ACCOMPANYING ACCOUNTANT'S REPORT.



**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY**  
**Budgetary Comparison Schedule**  
**For the Year Ended August 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues:				
Local support				
5470 Other Revenues from Local Sources	\$ 140,750	140,750	245,169	104,419
State program revenues				
5810 Foundation School Program Act Revenues	11,546,947	11,546,947	10,872,414	(674,533)
Federal program revenues:				
5920 Federal Revenues Distributed byTEA	1,918,748	1,798,748	1,613,619	(185,129)
Total Revenues	13,606,445	13,486,445	12,731,202	(755,243)
Expenses				
11 Instruction	5,988,329	6,068,330	6,097,367	29,037
13 Curriculum Development and Instructional	175,440	175,440	182,289	6,849
21 Instruction School Leadership	131,063	131,063	131,663	0
23 School Leadership	303,571	253,571	233,846	(19,725)
31 Guidance, Counseling and Evaluation Services	32,000	62,000	124,241	62,241
33 Health Services	22,000	37,000	37,184	184
35 Food Services	797,116	797,116	799,800	2,684
36 Cocurricular/Extracurricular Activities	43,500	63,500	71,467	7,967
41 General Administration	1,940,244	1,940,244	1,920,019	(20,225)
51 Plant Maintenance and Operations	1,022,286	1,152,286	1,166,777	14,491
52 Security	170,000	170,000	161,142	(8,858)
53 Data Processing Services	379,267	254,267	233,814	(20,453)
71 Debt Service	810,250	810,250	622,522	(187,728)
81 Fundraising	0	22,000	21,596	(404)
Total Expenses	11,815,066	11,937,067	11,803,727	(133,940)
Change in Net Assets	1,791,379	1,549,378	927,475	
Net Assets, beginning of year	7,613,717	7,613,717	7,613,717	
Net Assets, ending of year	\$ 9,405,096	9,163,095	8,541,192	

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, 2011**

		<b>budget</b>	<b>ACTUAL</b>	<b>VARIANCE</b>	<b>%</b>	<b>Description</b>
5470 Other Revenues from Local Sources	\$	140,750	245,169	104,419	74%	INSURANCE SETTLEMENT DELAY IN APPROVAL OF QSAB BOND
5920 Federal Revenues Distributed byTEA		1,798,748	1,613,619	(185,129)	10%	ISSUANCE HAIRED
31 Guidance, Counseling and Evaluation Services		62,000	124,241	62,241	100%	ADDITIONAL STAFF COST FOR DEVELOPING STUDENT GROWTH PROGRAMS
36 Cocurricular/Extracurricular Activities		63,500	71,467	7,967	13%	LOWER INTEREST RATE THAN ANTICIPATED
71 Debt Service		810,250	622,522	(187,728)	23%	

SEE ACCOMPANYING ACCOUNTANT'S REPORT.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY  
TEXTBOOK PROTOCOL  
For the Year Ended August 31, 2011**

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.