

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

AUGUST 31, 2012

**Robert E. Allen
CERTIFIED PUBLIC ACCOUNTANT**

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
AUGUST 31, 2012
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**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
AUGUST 31, 2012**

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, 2012, at a meeting of the Investment Committee of the board of directors of such school district on 24 day of January, 2013.


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, 2012 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, 2012 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 24, 2013, 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 the 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 24, 2013

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Statement of Financial Position
As of August 31, 2012 and 2011

	2012	2011
	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 935,992	998,955
Accounts receivable - TEA	1,152,422	1,172,387
Other receivables	0	61,324
Prepaid expenses	91,482	77,116
Total current assets	<u>2,179,896</u>	<u>2,309,782</u>
Investments at market value	2,820,437	4,542,982
Property, Plant and equipment		
Land	4,750,888	4,310,549
Buildings and improvements	16,192,285	16,063,057
Construction in progress	1,682,248	0
Furniture and equipment	2,251,315	1,771,654
Total property and equipment	<u>24,876,736</u>	<u>22,145,260</u>
Less: Accumulated Depreciation	(4,115,905)	(3,304,488)
Total property and equipment, net	<u>20,760,831</u>	<u>18,840,772</u>
Other Assets		
Deposits	2,868	2,868
Unamortized issuance costs net of amortization	1,590,753	1,816,547
Total Other Assets	<u>1,593,621</u>	<u>1,819,415</u>
 TOTAL ASSETS	 <u><u>27,354,785</u></u>	 <u><u>27,512,951</u></u>
 <u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	130,876	188,466
Accrued liabilities	194,017	118,182
Current portion of long-term debt	1,303,061	1,405,424
Total current liabilities	<u>1,627,954</u>	<u>1,712,072</u>
Long-Term Debt	16,220,618	17,259,687
Total Liabilities	<u>17,848,572</u>	<u>18,971,759</u>
Net Assets		
Unrestricted	1,288,536	1,227,908
Temporarily restricted	8,217,677	7,313,284
Total Net Assets (Deficit)	<u>9,506,213</u>	<u>8,541,192</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u><u>27,354,785</u></u>	 <u><u>27,512,951</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, 2012 and 2011

			Totals	
	Unrestricted	Temporarily Restricted	2012	2011
Revenues				
Local support:				
5740 Other Revenues from Local Sources	\$ 120,552	84,695	205,247	245,169
State program revenues				
5810 Foundation School Program Act Revenues		10,783,582	10,783,582	10,533,801
5820 State Program Revenues Distributed by the TEA	0	20,938	20,938	338,613
Total state program revenues	0	10,804,520	10,804,520	10,872,414
Federal program revenues:				
5920 Federal Revenues Distributed by the TEA	0	2,341,059	2,341,059	1,613,619
	0	2,341,059	2,341,059	1,613,619
Net assets released from restrictions:				
Restrictions satisfied by payments	12,325,881	(12,325,881)	0	0
Total Revenues	12,446,433	904,393	13,350,826	12,731,202
Expenses				
PROGRAM EXPENSES				
11 Instructions	6,253,448	0	6,253,448	6,097,367
13 Curriculum Development and Instructional	170,563	0	170,563	182,289
21 Instructional School Leadership	66,989	0	66,989	131,663
23 School Leadership	320,517	0	320,517	233,846
31 Guidance, Counseling and Evaluation Services	97,324	0	97,324	124,241
33 Health Services	50,123	0	50,123	37,184
35 Food Services	882,301	0	882,301	799,800
36 Co-curricular/Extracurricular Activities	85,770	0	85,770	71,467
SUPPORT SERVICES				
41 General Administration	1,756,422	0	1,756,422	1,920,019
51 Plant Maintenance & Operations	1,171,227	0	1,171,227	1,166,777
52 Security	167,780	0	167,780	161,142
53 Data Processing Services	363,219	0	363,219	233,814
71 Interest Expense	999,122	0	999,122	622,522
81 Fundraising	1,000	0	1,000	21,596
Total Expenses	12,385,805	0	12,385,805	11,803,727
Change in Net Assets	60,628	904,393	965,021	927,475
Net Assets, beginning of year	1,227,908	7,313,284	8,541,192	7,613,717
Net Assets, ending of year	\$ 1,288,536	8,217,677	9,506,213	8,541,192

THE NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Statement of Cash Flows
As of August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of change in net assets to net cash provided by other operating activities:		
Change in net assets	\$ 965,021	927,475
Adjustments to change in net assets:		
Depreciation and amortization	811,417	638,974
Amortization of issuance cost	225,794	89,269
Other assets	0	(12,715)
Accounts receivable	66,923	(89,399)
Restricted cash	0	0
Restricted for bond reserves	0	0
Accounts payable	(57,590)	(6,697)
Accrued liabilities	75,835	(19,931)
Net cash provided by operating activities	<u>2,087,400</u>	<u>1,526,976</u>
 Cash flows from investing activities:		
Purchase investments	1,722,545	(3,337,215)
Purchase of equipment and other capital assets	<u>(2,731,476)</u>	<u>(2,397,300)</u>
Net cash provided by investing activities	<u>(1,008,931)</u>	<u>(5,734,515)</u>
 Cash flows from financing activities:		
Loan to repurchase and defease bonds		5,250,000
Bond and loan payments and repurchases	<u>(1,141,432)</u>	<u>(1,138,550)</u>
Net cash provided by financing activities	<u>(1,141,432)</u>	<u>4,111,450</u>
 Net increase (decrease) in cash	(62,963)	(96,089)
Cash at beginning of year	<u>998,955</u>	<u>173,013</u>
Cash at ending of year	\$ <u>935,992</u>	<u>76,924</u>
 Supplementary Information:		
Loans to capital assets:	\$ 0	525,000
Interest Paid:	\$ 810,300	817,634
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, 2012

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 2012 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, 2012

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.

Fair Value

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

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: Quoted prices for identical assets or liabilities in active markets;
- Level 2: Significant other observable Inputs;
- Level 3: Significant unobservable inputs.

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.

Note 2: 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

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012

Note 2: Capital Assets-continued

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.

Capital assets at August 31, 2012 and 2011 were as follows:

	2012	2011
Equipment	\$ 4,750,888	4,310,549
Buildings and Improvements	16,192,285	16,063,057
Construction in progress	1,682,248	0
Land	2,251,315	1,771,654
Total property and equipment	\$ 24,876,736	22,145,260

Depreciation expensed in the year ended August 31, 2012 was \$ 638,974 and 2011 \$638,974.

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.

Note 3: Long-Term Debt

	2012		2011	
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 7th year.	\$ 11,724,000	955,000	12,733,333	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 7th year.	724,444	54,333	724,445	54,333
Insurance note payable	88,993	88,993	81,652	81,652
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.				
	4,986,242	204,735	5,125,681	314,438
Total debt	17,523,679	1,303,061	18,665,111	1,405,423
Due in one year	(1,303,061)		(1,405,423)	
Due after one year	\$ 16,220,618		17,259,688	

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012

Note 3: Long-Term Debt - continued

Year Ended August 31,	2012		2011	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 0	0	1,323,772	612,209
2013	1,303,061	564,550	1,329,287	564,550
2014	1,334,898	514,274	1,334,898	514,274
2015	1,340,609	467,610	1,340,609	467,610
2016	1,346,419	420,846	1,346,419	420,846
2017	1,352,329	374,082	0	0
Thereafter	10,846,363	3,394,344	11,908,474	3,768,426
	<u>\$ 17,523,679</u>	<u>5,735,706</u>	<u>18,583,459</u>	<u>6,347,915</u>

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, 2012 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 \$216,840 and current year amortization was 2012 \$273,340 and 2011 \$273,340 which was charged to debt service expense as interest.

Bond Defeasance

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 in trust at Regions Bank in the amount \$8,509,976. The transaction is 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, 2012

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012

Note 4: Pension Plan Obligations – continued

and 2011 were \$ 425,683 and \$ 417,779 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 2012 the School made a \$50,000 contribution to the plan.

Note 5: Health Care Coverage

During the year ended August 31, 2012, 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:

	<u>2012</u>	<u>2011</u>
417 - State optional	\$	485
299- Summer program		1074
420 - Student Foundation Program	<u>8,217,677</u>	<u>7,311,725</u>
	<u>\$ 8,217,677</u>	<u>7,313,284</u>

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 2013 thru 2016, respectively: \$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.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2012

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 \$12,385,805 reflect direct program costs of \$7,927,035, administrative expenses of \$3,458,648, fundraising \$1,000 and debt service of \$999,122.

NOTE 16: Investments

The Academy's investments in bonds, treasuries and certificates of deposits and are at Level 1 Fair Value of \$2,820,437.

NOTE 17: Subsequent Events

The Academy closed on October 11, 2012, \$23,065,000 of Newark Cultural Education Facilities Finance Corporation Lease Revenue Bonds Series 2012A and Tax Lease Revenue Bonds, Series 2012B bonds. The bonds had a net premium of \$882,812. Proceeds are useable as follows: General Fund Reimbursement \$3,531,976; Construction \$4,785,000; Refinance \$12,403,024 paying the Regions loans in the note (No. 3) to financial statements appearing above, Debt Service Fund \$2,133,200; Issuance Cost and Underwriter's Discount and miscellaneous \$1,094,612.

The Academy voted to compensate the President of the board for services reportedly beyond his board responsibilities up to \$30,000 in October 2012 meeting.

The School's management has evaluated subsequent events through January 24, 2013 the day these statements were available to be issue.

**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, 2012, and have issued my report thereon dated January 24, 2013. 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.

My 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 24, 2013.

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 24, 2013

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, 2012, and have issued my report thereon dated January 24, 2013. 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.

My 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 24, 2013.

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 24, 2013

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, 2012. 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, 2012. 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.

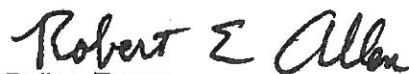
**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACORANCE WITH OMB CIRCULAR A133
continued**

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 24, 2013

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Schedule of Findings and Questioned Costs – Current Year
For the Year Ended August 31, 2012 - *continued*

NONE

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Schedule of Findings and Questioned Costs – Prior Year
For the Year Ended August 31, 2012 - *continued*

NONE

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Schedule of Expenditure of Federal Awards
For the Year Ended August 31, 2012

<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	71301201	\$ 560,782
School Breakfast Program (SBP)	10.553	CHILD NUTRITION	71401201	147,789
SUBTOTAL				<u>708,571</u>
U. S. DEPARTMENT OF EDUCATION				
TITLE I, PART A-IMPROVING BASI	84.010A	ELEMENTRY AND SECONDARY	1261010157816	<u>463,819</u>
IDEA-B FORMULA	84.027A	ELEMENTRY AND SECONDARY	126600010578166000	202,331
IDEA-B PRESCHOOL	84.173A	ELEMENTRY AND SECONDARY	126610010578166000	<u>1,111</u>
SUBTOTAL				<u>203,442</u>
TITLE II, PART A-TEACHER & PRI	84.367A	ELEMENTRY AND SECONDARY	12694501057816	52,234
EDUCATION JOBS FUND	84.410	ELEMENTRY AND SECONDARY	11550101057816	251,794
TOTAL FEDERAL GRANTS				<u>1,679,860</u>
OTHER FEDERAL EXPENDITURES				
Erate - redits				410,332
Tax Credits - Qualifying bonds				241,597
TOTAL FEDERAL EXPENDITURES				<u>\$ 2,331,789</u>

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 des 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, 2012

Expenses	<u>2012</u>	<u>2011</u>
6100 Payroll Costs	\$ 7,492,281	7,166,492
6200 Professional and Contracted Services	2,110,593	1,930,663
6300 Supplies and Materials	560,684	770,573
6400 Other Operating Costs	1,223,125	1,313,477
6500 Debt	<u>999,122</u>	<u>622,522</u>
Total Expenses	\$ <u>12,385,805</u>	<u>11,803,727</u>

SEE ACCOMPANYING ACCOUNTANT'S REPORT.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Schedule of Capital Assets
For the Year Ended August 31, 2012

	Ownership Interest			
	Local	State	Federal	TOTAL
1510 Land and Improvements:	\$ 0	4,750,888	0	4,750,888
1520 Buildings and Improvements:	39,628	17,086,238	748,667	17,874,533
1539 Furniture and Equipment:	89,667	1,252,157	909,491	2,251,315
Total Property and Equipment	\$ 129,295	23,089,283	1,658,158	24,876,736

SEE ACCOMPANYING ACCOUNTANT'S REPORT.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Budgetary Comparison Schedule
For the Year Ended August 31, 2012

		Budgeted Amounts			
		Original	Final	Actual Amounts	Variance from Final Budget
Revenues:					
Local support					
5470 Other Revenues from Local Sources	\$	77,000	77,000	205,247	128,247 167%
State program revenues					
5810 Foundation School Program Act Revenues		11,026,822	11,026,822	10,804,520	(222,302) -2%
Federal program revenues:					
5920 Federal Revenues Distributed by TEA		1,884,937	1,884,937	2,341,059	456,122 24%
Total Revenues		12,988,759	12,988,759	13,350,826	362,067
Expenses					
11 Instruction		6,108,757	6,108,757	6253448	144,691 2%
13 Curriculum Development and Instructional		171,352	171,352	170563	(789) 0%
21 Instruction School Leadership		195,448	195,448	66989	(128,459) 100%
23 School Leadership		312,732	312,732	320517	7,785 2%
31 Guidance, Counseling and Evaluation Services		91,000	121,000	97324	(23,676) -20%
33 Health Services		35,000	50,000	50123	123 0%
35 Food Services		891,976	891,976	882301	(9,675) -1%
36 Co curricular/Extra curricular Activities		66,500	90,500	85770	(4,730) -5%
41 General Administration		1,961,057	1,961,057	1756422	(204,635) -10%
51 Plant Maintenance and Operations		1,211,968	1,260,968	1171227	(89,741) -7%
52 Security		160,000	165,000	167780	2,780 2%
53 Data Processing Services		274,808	364,808	363219	(1,589) 0%
71 Debt Service		748,986	748,986	999122	250,136 33%
81 Fundraising		0	10,000	1000	(9,000) -90%
Total Expenses		12,229,584	12,452,584	12,385,805	(66,779)
Change in Net Assets		759,175	536,175	965,021	
Net Assets, beginning of year		8,541,192	8,541,192	8,541,192	
Net Assets, ending of year	\$	9,300,367	9,077,367	9,506,213	

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, 2012

		budget	ACTUAL	VARIANCE	%	Description
5470 Other Revenues from Local Sources	\$	77,000	205,247	128,247	167%	Donation greater than expected and higher earnings on investments
5920 Federal Revenues Distributed by TEA		1,884,937	2,341,059	456,122	24%	Title I maximum entitlements increased
21 Instruction School Leadership		195,448	66,989	(128,459)	-66%	Costs re-allocated to Function 11
31 Guidance Counseling Evaluation		121,000	97,324	(23,676)	-20%	Number of students served increased
71 Debt Service		748,986	999,122	250,136	33%	Nbond amortization re-directed to Function 71 Debt Service from 41 Administrative

:

SEE ACCOMPANYING ACCOUNTANT'S REPORT.

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
TEXTBOOK PROTOCOL
For the Year Ended August 31, 2012**

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.