

**A. W. BROWN FELLOWSHIP
LEADERSHIP ACADEMY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
AUGUST 31, 2013**

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
AUGUST 31, 2013
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A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
AUGUST 31, 2013

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 X approved _____disapproved for the year ended August 31, 2013, at a meeting of the Investment Committee of the board of directors of such school district on the 4th day of February, 2014.


Signature of Board Member


Signature of Board Member



Susan LaFollett, CPA – Partner
Rod Abbott, CPA – Partner

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
A.W. Brown Fellowship Leadership Academy

Report on the Financial Statements

We have audited the accompanying financial statements of A.W. Brown Fellowship Leadership Academy (a non-profit organization), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules presented in the section labeled *Supplemental Information* are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule 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 also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2014, on our consideration of A.W. Brown Fellowship Leadership Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

LaFollett and Abbott PLLC

Tom Bean, Texas
February 4, 2014

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2013

| <u>Assets</u> | |
|---|------------------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 1,536,098 |
| Accounts receivable - TEA | 1,809,108 |
| Other receivables | 2,531 |
| Prepaid expenses | 101,795 |
| Total current assets | <u>3,449,532</u> |
| Investments at fair market value | 4,537,762 |
| Capital Assets | |
| <i>Non-depreciable capital assets</i> | |
| Land | 4,750,888 |
| <i>Depreciable capital assets</i> | |
| Buildings and improvements | 22,753,378 |
| Furniture and equipment | 2,708,201 |
| Total capital assets | <u>30,212,467</u> |
| Less: Accumulated Depreciation | <u>(4,921,838)</u> |
| Total capital assets - net | 25,290,629 |
| Other Assets | |
| Restricted Cash - Bond trustee | 2,575,698 |
| Debt issuance costs (net of amortization) | 294,699 |
| Total Other Assets | <u>2,870,397</u> |
| TOTAL ASSETS | <u><u>36,148,320</u></u> |

| <u>Liabilities and Net Assets</u> | |
|--------------------------------------|---------------------------------|
| Current Liabilities | |
| Accounts payable | 380,828 |
| Retainage payable | 219,065 |
| Interest payable | 68,003 |
| Accrued payroll liabilities | 166,215 |
| Accrued compensated absences | 166,847 |
| Current portion of long-term debt | 603,945 |
| Total current liabilities | <u>1,604,903</u> |
| Long-Term Debt | <u>27,350,647</u> |
| Total Liabilities | <u>28,955,550</u> |
| Net Assets | |
| Unrestricted | 713,627 |
| Temporarily restricted | 6,479,143 |
| Total Net Assets | <u>7,192,770</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u><u>36,148,320</u></u> |

The notes to the financial statements are an integral part of this statement.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
AUGUST 31, 2013

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
|--|---------------------|-----------------------------------|---------------------|
| Revenues | | | |
| Local support: | | | |
| 5740 Other Revenues from Local Sources | \$ 133,660 | \$ 789 | \$ 134,449 |
| State program revenues | | | |
| 5810 Foundation School Program Act Revenues | - | 12,291,482 | 12,291,482 |
| 5820 State Program Revenues Distributed by the TEA | - | 7,604 | 7,604 |
| Total state program revenues | <u>-</u> | <u>12,299,086</u> | <u>12,299,086</u> |
| Federal program revenues: | | | |
| 5920 Federal Revenues Distributed by the TEA | <u>-</u> | <u>2,314,995</u> | <u>2,314,995</u> |
| | <u>-</u> | <u>2,314,995</u> | <u>2,314,995</u> |
| Net assets released from restrictions: | | | |
| Restrictions satisfied by payments | <u>14,870,967</u> | <u>(14,870,967)</u> | <u>-</u> |
| Total Revenues | <u>15,004,627</u> | <u>(256,097)</u> | <u>14,748,530</u> |
| Expenses | | | |
| 11 Instructions | 7,815,972 | - | 7,815,972 |
| 13 Curriculum Development and Instructional | 188,870 | - | 188,870 |
| 21 Instructional School Leadership | 70,068 | - | 70,068 |
| 23 School Leadership | 399,004 | - | 399,004 |
| 31 Guidance, Counseling and Evaluation Services | 109,457 | - | 109,457 |
| 33 Health Services | 42,529 | - | 42,529 |
| 35 Food Services | 1,130,407 | - | 1,130,407 |
| 36 Co-curricular/Extracurricular Activities | 276,118 | - | 276,118 |
| 41 General Administration | 1,267,213 | - | 1,267,213 |
| 51 Plant Maintenance & Operations | 1,520,454 | - | 1,520,454 |
| 52 Security | 194,275 | - | 194,275 |
| 53 Data Processing Services | 246,923 | - | 246,923 |
| 71 Debt Service | 1,433,171 | - | 1,433,171 |
| 81 Fundraising | - | - | - |
| Total Expenses | <u>14,694,461</u> | <u>-</u> | <u>14,694,461</u> |
| Change in Net Assets before Extraordinary Items | 310,166 | (256,097) | 54,069 |
| Extraordinary Loss - Early Debt Extinguishment | <u>(885,075)</u> | <u>-</u> | <u>(885,075)</u> |
| Change in Net Assets | (574,909) | (256,097) | (831,006) |
| Net Assets, Beginning of Year | <u>1,288,536</u> | <u>8,217,677</u> | <u>9,506,213</u> |
| Prior Period Adjustments | <u>-</u> | <u>(1,482,437)</u> | <u>(1,482,437)</u> |
| Net Assets, End of Year | <u>\$ 713,627</u> | <u>\$ 6,479,143</u> | <u>\$ 7,192,770</u> |

The notes to the financial statements are an integral part of this statement.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2013

| | <u>2013</u> |
|---|---------------------|
| Reconciliation of change in net assets to net cash provided by operating activities: | |
| Change in net assets | \$ (831,006) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and lease amortization | 805,933 |
| Amortization of issuance cost | 34,981 |
| Extraordinary losses | 885,075 |
| Unrealized investment losses | 123,528 |
| (Increase)/decrease in assets | |
| Prepaid expenses | (10,313) |
| Accounts receivable | (659,217) |
| Increase/(decrease) in liabilities | |
| Accounts payable | 249,952 |
| Retainage payable | 219,065 |
| Interest payable | 68,003 |
| Accrued payroll liabilities | (27,802) |
| Accrued compensated absences | 63,777 |
| Net cash provided by operating activities | <u>921,976</u> |
| Cash flows from investing activities: | |
| Purchase of investments | (1,167,098) |
| Purchase of equipment and other capital assets | (5,116,666) |
| Net cash provided by investing activities | <u>(6,283,764)</u> |
| Cash flows from financing activities: | |
| Transfer to restricted cash accounts for bond reserves | (2,575,698) |
| New bond issuances | 23,065,000 |
| Bond issue costs, discounts, and termination payments | (1,893,321) |
| Bond and note principal payments | (12,634,087) |
| Net cash provided by financing activities | <u>5,961,894</u> |
| Net increase (decrease) in cash | 600,106 |
| Cash at the beginning of year | 935,992 |
| Cash at the end of year | <u>\$ 1,536,098</u> |
| Supplementary Information: | |
| Interest paid: (with \$274,678 being capitalized) | \$ 1,330,187 |
| Income taxes paid | \$ - |

The notes to the financial statements are an integral part of this statement.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013

Note 1: Summary of Significant Accounting Policies

The general purpose financial statements of A. W. Brown Fellowship Leadership Academy (the "Charter School") 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 Leadership Academy.

Reporting Entity

The Charter School 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. A Board of Directors comprised of thirteen members governs the Charter School. The Board of Directors is selected pursuant to the bylaws of the Charter School and has the authority to make decisions, appoint the chief executive officer of the Charter School, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Charter School. Since the Charter School 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 expired July 31, 2013. The Charter School has applied for charter renewal and the renewal is pending at August 31, 2013.

The Charter School's programs include classroom instruction with funding provided by Public Charter School's Foundation Formula, School Breakfast/Lunch Programs, Title I Part A, Title III, and IDEA-B program.

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 Charter 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 Charter School, 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, 2013

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

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.

Receivables

Accounts receivable are presented net of estimated allowances for doubtful amounts. The Charter School's policy is to write-off receivables as they are deemed uncollectible or as notified by grantor agencies. All federal and state receivable amounts due at August 31, 2013 are considered fully collectible. Therefore, management has not recorded an allowance for the federal and state receivables that pass through the Texas Education Agency (TEA).

Capital Assets and Other 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 Charter School 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 bonds is amortized over the life of each bond.

Compensated Absences

The Charter School's employees accumulate and vest in vacation leave at varying rates depending on longevity. Accumulated vacation leave cannot exceed 160 hours.

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.

Fair Value

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

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013

Note 1: Summary of Significant Accounting Policies – continued

Fair Value Measurements

FASB ASC 820 *Fair Value Measurements and Disclosures* 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. Cash Equivalents and Restricted Cash

Unrestricted cash at August 31, 2013 is comprised of \$1,536,098 deposited with financial institutions. The Federal Depository Insurance Corporation (FDIC) insures these bank deposits to certain limits. \$750,000 of unrestricted cash deposits were fully insured by the FDIC at August 31, 2013 and \$786,098 was unsecured.

All of the \$2,575,698 of restricted cash balance is related to restricted bond debt service accounts that are held in the required separate bank accounts.

Note 3: Capital Assets

Capital assets at August 31, 2013 are as follows:

| | |
|---------------------------------------|----------------------|
| <i>Non-depreciable capital assets</i> | |
| Land | \$ 4,750,888 |
| <i>Depreciable capital assets</i> | |
| Buildings and improvements | 22,753,378 |
| Furniture and equipment | 2,708,201 |
| Total capital assets | <u>30,212,467</u> |
| Less: Accumulated depreciation | (4,921,838) |
| Total capital assets - net | <u>\$ 25,290,629</u> |

Depreciation expensed in the year ended August 31, 2013 was \$ 805,933.

Capital assets acquired with state and federal funds received by the Charter School for the operation of the Charter School constitute public property pursuant to Chapter 12 of the Texas Education Code. Equipment of \$129,295 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, 2013

Note 4: Long-Term Debt

| | Long-term portion | Due within one year |
|--|----------------------|------------------------|
| Series 2012 A - \$20,680,000 Lease Revenue Bonds (tax exempt) with Newark Educational Facilities Finance Corporation. Final maturity in 2042. | \$ 20,680,000 | \$ - |
| Series 2012 B - \$2,385,000 Lease Revenue Bonds (taxable) with Newark Educational Facilities Finance Corporation. Final maturity in 2022. | 2,385,000 | 270,000 |
| Insurance note payable | 107,075 | 107,075 |
| Series 2011Q 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. | 4,782,517 | 226,870 |
| Total debt | 27,954,592 | \$ 603,945 |
| Due in one year | (603,945) | |
| Due after one year | \$ 27,350,647 | |

The Charter School 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 (includes \$798,709 reimbursement for a swap termination fee paid to Regions Bank to extinguish 2009 Series Bonds – see below); Construction \$4,785,000; Refinance \$12,403,024 paying to the Regions Bank Series 2009 A & B Bonds, Debt Service Fund \$2,133,200; Issuance Cost and Underwriter's Discount and miscellaneous \$1,094,612. The stated interest rate for Series 2012A is 6% with an effective yield of 5.987%. The stated interest rate for Series 2012B is 6.625% with an effective yield of 5.589%. Principal and interest is paid semi-annually on February 15th and August 15th for both bonds.

Bond Issue Costs and Extraordinary Loss for Early Debt Extinguishment

Unamortized Bond Issues costs and discounts at August 31, 2013 are \$1,177,511 and presented net of bond premiums of \$882,812. The costs are being amortized over the respective lives of each outstanding bond series using the straight-line method.

The Charter School incurred an \$885,075 extraordinary loss during fiscal year 2013 for the following: \$798,709 paid for the early termination of the Series 2009 Bonds, and \$86,366 for the write-off of unamortized 2009 Series Bond issue costs at the date of debt extinguishment.

Debt Covenants

The Series 2012 bonds have multiple debt covenants as outlined by the "Master Trust Indenture and Security Agreement" (the Agreement) between the Charter School and the Trustee. These debt covenants include, but are not limited to the following: meeting certain debt service coverage ratios and "days cash on hand" requirements as defined by the Agreement and providing audited financial statements within 120 days of fiscal year-end. Non-compliance with debt covenants may be considered an "Event of Default" as defined by the Agreement and may under certain circumstances make all outstanding bond debt due immediately.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013

Note 4: Long-Term Debt – continued

Schedule of future principal and interest requirements are as follows:

| <u>Fiscal Years</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------|---------------------|----------------------|
| 2014 | \$ 603,945 | \$ 1,398,806 |
| 2015 | 509,245 | 1,380,919 |
| 2016 | 530,834 | 1,363,363 |
| 2017 | 549,332 | 1,345,806 |
| 2018 | 564,906 | 1,328,581 |
| 2019 - 2023 | 3,304,639 | 6,396,882 |
| 2024 - 2028 | 3,451,691 | 6,009,900 |
| 2029 - 2033 | 4,435,000 | 5,031,000 |
| 2034 - 2038 | 5,940,000 | 3,530,100 |
| 2039 - 2042 | 8,065,000 | 1,407,300 |
| | <u>\$27,954,592</u> | <u>\$ 29,192,657</u> |

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 balance of the Trust accounts and estimated liability outstanding is \$7,294,862. The transaction is to 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 5: 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 employee contributions to the System for the year ending August 31, 2013 were \$462,100 and equal to the required contributions for the year. The Charter School has also established a 403(b) plan for the employees. This 403(b) plan provides the option for the Charter School to make contributions to the 403(b) plan for distribution to the employees based upon a five year vesting schedule. In 2013, the Charter School made no contribution to the 403(b) plan.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013

Note 6: Health Care Coverage

During the year ended August 31, 2013, 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 7: Temporarily Restricted Net Assets

The Charter School receives significant state and federal funding that have temporary restrictions for use. The Charter School has \$6,479,143 of temporarily restricted net assets at August 31, 2013. The Charter School has no permanently restricted net assets at August 31, 2013.

Note 8: Related Parties

The Chief Executive Officer is the father of the President of the Board of Directors. A Charter School board member and principal is the mother of the President of the Board of Directors. The President was paid \$30,000 for legal services provided to the Charter School in 2013. Some Charter School employees, including three teachers and the Chief Executive Officer, also serve on the board.

Note 9: 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 Charter School has operating leases for equipment that requires monthly installments and has the following scheduled payments in 2014 through 2016, respectively: \$121,910, \$121,910, and ending in 2016 with \$121,910.

Note 10: Donated Goods and Services

Donated goods or services are not recorded at fair value on the date of contribution. The Board has implemented the securing of a separate entity to raise funds for the Charter School and student scholarships. The Charter School had no significant goods donations, nor donated skilled services for fiscal year 2013.

Note 11: Concentrations

The Charter 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.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2013

Note 12: Investments

Investment balances within the fair value hierarchy at August 31, 2013 are as follows:

| | Fair Value Measurements at August 31, 2013 | | | |
|----------------------------------|--|---|--|--------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Other Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Totals |
| Cash/Money Market | \$ 313,725 | \$ - | \$ - | \$ 313,725 |
| Fixed Income | 3,308,655 | - | - | 3,308,655 |
| Equities | 71,071 | - | - | 71,071 |
| Mutual Funds | 834,079 | - | - | 834,079 |
| Exchange-traded Products | 10,232 | - | - | 10,232 |
| Total Investments at Fair Value: | \$ 4,537,762 | \$ - | \$ - | \$ 4,537,762 |

NOTE 13: Maintenance Program

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

NOTE 14: Program Costs

The Total expenditures of \$14,829,746 reflect direct program costs of \$10,032,425, administrative expenses of \$3,228,865 and debt service of \$1,568,456.

NOTE 15: Prior Period Adjustments

The Charter School established an accrued compensated absences liability during fiscal year 2013. The value of the liability at August 31, 2012 was calculated to be \$103,070. The Charter School also adjusted bond issue costs to only reflect issue costs for bonds outstanding at August 31, 2013. Accordingly, net assets at August 31, 2012 have been restated as follows:

| | |
|--|---------------------|
| Net assets, as previously reported at August 31, 2012 | \$ 9,506,213 |
| Less: Establishment of an accrued compensated absences liability | (103,070) |
| Less: Bond issue costs removed and extinguished in prior years | (1,379,367) |
| Ending net assets, as restated at August 31, 2012 | <u>\$ 8,023,776</u> |

NOTE 16: Subsequent Events

The Charter School was notified in December, 2013, that its permission for campus expansion was placed on hold by the Commissioner of the Texas Education Agency. The Commissioner's actions are being appealed.

The Charter School's management has evaluated subsequent events through February 4, 2014, which is the day these statements were available to be issued.



Susan LaFollett, CPA – Partner
Rod Abbott, CPA – Partner

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
A.W. Brown Fellowship Leadership Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of A.W. Brown Fellowship Leadership Academy (the "Charter School"), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Charter School in a separate letter dated February 4, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "LaFollett and Abbott PLLC". The script is cursive and fluid, with the letters connected. The "P" in "PLLC" is capitalized and prominent.

Tom Bean, Texas
February 4, 2014



Susan LaFollett, CPA – Partner
Rod Abbott, CPA – Partner

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited A.W. Brown Fellowship Leadership Academy (the "Charter School") 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 the Charter School's major federal programs for the year ended August 31, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Charter School's compliance.

Opinion on Each Major Federal Program

In our opinion, the Charter School complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the Charter School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "LaFollett and Culbertt PLLC". The signature is written in a cursive, flowing style.

Tom Bean, Texas

February 4, 2014

**A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

2013

Type of auditor’s reports issued: Unmodified

Internal control over financial reporting:

- Significant deficiencies identified? NO
- Significant deficiencies identified that are considered to be a material weakness? NO

Noncompliance material to the financial statements noted? NO

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? NO
- Significant deficiencies identified that are considered to be a material weakness? NO

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? NO

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 84.010 | Title I - Part A |
| 10.553 | School Breakfast Program |
| 10.555 | School Lunch Program |

Dollar threshold to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? NO

SECTION II – FINANCIAL STATEMENT FINDINGS

There are no matters to report in this section.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report in this section.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013

STATUS OF PRIOR AUDIT FINDINGS

There are no matters to report in this section.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Schedule of Federal Award Expenditures
For the Year Ended August 31, 2013

| <u>Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>GRANT ID (NOGA)</u> | <u>2013 Federal Expenditures</u> |
|--|------------------------------------|------------------------|---|
| <u>United States Department of Education</u> | | | |
| <u>Passed Through State Department of Education:</u> | | | |
| TITLE I, PART A, IMP BASIC PROGRAM | 84.010A | 13610101057816 | \$ 494,220 |
| IDEA B FORMULA-SPECIAL EDUCATION | 84.027A | 136600010578166000 | 239,667 |
| TITLE II, PART A, TEACHER/PRINCIPAL DEVELOPMENT | 84.367A | 13694501057816 | <u>54,980</u> |
| Sub-Total United States Department of Education Passed Through the State | | | 788,867 |
| <u>United States Department of Education</u> | | | |
| <u>Passed Through Other Entities:</u> | | | |
| TITLE III, PART A | 84.365A | 13671001057950 | <u>1,349</u> |
| Sub-Total Department of Education Passed Through Other Entities | | | 1,349 |
| Total United States Department of Education | | | <u>790,216</u> |
| <u>United States Department of Agriculture</u> | | | |
| <u>Passed through State Department of Education:</u> | | | |
| NATIONAL SCHOOL BREAKFAST PROGRAM | 10.553 | 71401301 | 199,803 |
| NATIONAL SCHOOL LUNCH PROGRAM | 10.555 | 71301101 | <u>672,960</u> |
| Total United States Department of Agriculture | | | <u>872,763</u> |
| Total Expenditures of Federal Awards | | | \$ 1,662,979 |

Note 1: Standard Financial Accounting System

For all federal programs, the Charter School used the net asset classes and codes specified by the Texas Education Agency in the Special Supplement To Financial Accounting and Reporting, Nonprofit Charter School Chart Of Accounts. Temporarily 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 accrual basis.

Other sources of federal revenues are \$216,965 for E-Rate credits and \$435,051 in tax credits for qualifying bonds. On the Statement of Activities, these sources are added to total federal awards above to present \$2,314,995 for total federal sources of revenue.

SUPPLEMENTAL INFORMATION

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Schedule of Expenses
For the Year Ended August 31, 2013

| Expenses | <u>2013</u> |
|---|-----------------------------|
| 6100 Payroll Costs | \$ 8,673,203 |
| 6200 Professional and Contracted Services | 2,352,174 |
| 6300 Supplies and Materials | 727,735 |
| 6400 Other Operating Costs | 1,508,178 |
| 6500 Debt | <u>1,433,171</u> |
| Total Expenses | \$ <u><u>14,694,461</u></u> |

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Schedule of Capital Assets
For the Year Ended August 31, 2013

| Ownership Interest | | | | |
|----------------------------------|------------|------------|-----------|------------|
| | Local | State | Federal | TOTAL |
| 1510 Land and Improvements: | \$ 0 | 4,750,888 | 0 | 4,750,888 |
| 1520 Buildings and Improvements: | 39,628 | 21,965,083 | 748,667 | 22,753,378 |
| 1539 Furniture and Equipment: | 89,667 | 1,709,043 | 909,491 | 2,708,201 |
| Total Property and Equipment | \$ 129,295 | 28,425,014 | 1,658,158 | 30,212,467 |

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Budgetary Comparison Schedule
For the Year Ended August 31, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance from Final Budget</u> | |
|--|-------------------------|-------------------|---------------------------|---|-------|
| | <u>Original</u> | <u>Final</u> | | | |
| Revenues: | | | | | |
| Local support | | | | | |
| 5470 Other Revenues from Local Sources | \$ 179,726 | 179,726 | 134,449 | (45,277) | -25% |
| State program revenues | | | | | |
| 5810 Foundation School Program Act Revenues | 12,707,526 | 12,707,526 | 12,299,086 | (408,440) | -3% |
| Federal program revenues: | | | | | |
| 5920 Federal Revenues Distributed by TEA | 1,950,397 | 2,295,552 | 2,314,995 | 19,443 | 1% |
| Total Revenues | <u>14,837,649</u> | <u>15,182,804</u> | <u>14,748,530</u> | <u>(434,274)</u> | |
| Expenses | | | | | |
| 11 Instruction | 7,319,379 | 7,370,765 | 7815972 | 445,207 | 6% |
| 13 Curriculum Development and Instructional | 179,600 | 189,600 | 188870 | (730) | 0% |
| 21 Instruction School Leadership | 263,356 | 270,000 | 70068 | (199,932) | 100% |
| 23 School Leadership | 369,899 | 309,899 | 399004 | 89,105 | 29% |
| 31 Guidance, Counseling and Evaluation Services | - | 121,000 | 109457 | (11,543) | -10% |
| 33 Health Services | 45,010 | 46,011 | 42529 | (3,482) | -8% |
| 34 Student Pupil Services | 48,000 | 48,000 | 47423 | (577) | -1% |
| 35 Food Services | 1,082,846 | 1,085,746 | 1130407 | 44,661 | 4% |
| 36 Cocurricular/Extracurricular Activities | 168,909 | 220,290 | 228695 | 8,405 | 4% |
| 41 General Administration | 2,249,387 | 2,001,329 | 1267213 | (734,116) | -37% |
| 51 Plant Maintenance and Operations | 1,187,550 | 1,413,846 | 1520454 | 106,608 | 8% |
| 52 Security | 180,000 | 180,000 | 194275 | 14,275 | 8% |
| 53 Data Processing Services | 355,321 | 248,406 | 246923 | (1,483) | -1% |
| 71 Debt Service | 788,505 | 1,761,424 | 1433171 | (328,253) | -19% |
| 81 Fundraising | 10,000 | 10,000 | 0 | (10,000) | -100% |
| Total Expenses | <u>14,247,762</u> | <u>15,276,316</u> | <u>14,694,461</u> | <u>(581,855)</u> | |
| Change in Net Assets before extraordinary items | 589,887 | (93,512) | 54,069 | 147,581 | |
| Extraordinary loss | <u>0</u> | <u>0</u> | <u>(885,075)</u> | <u>(885,075)</u> | |
| Change in Net Assets | 589,887 | (93,512) | (831,006) | (737,494) | |
| Net Assets, Beginning of Year (restated) | 8,023,776 | 8,023,776 | 8,023,776 | | |
| Net Assets, Ending of Year | <u>\$ 9,203,550</u> | <u>7,836,752</u> | <u>7,192,770</u> | | |

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
Discussion of Budgetary Variances of 10% or Greater
For the Year Ended August 31, 2013

| | |
|---|---|
| 5470 Other Revenues from Local Sources | -25% Local fundraising was postponed to 2014 |
| 21 Instruction School Leadership | 100% Reduction in staff |
| 31 Guidance, Counseling and Evaluation Services | -10% Reduction in staff |
| 41 General Administration | -37% Allocated depreciation costs |
| 71 Debt Service | -11% Better results on bond issue than originally anticipated |
| 81 Fundraising | -100% Local fundraising was postponed to 2014 |
| 23 School Leadership | 29% Increase in staff |

**A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
TEXTBOOK PROTOCOL
For the Year Ended August 31, 2013**

The Charter 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.