

AZLEWAY, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2014**

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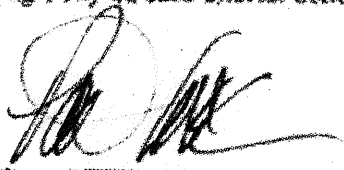
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AZLEWAY, INC.
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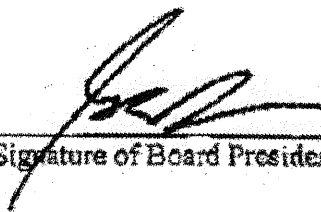
(Federal Employer Identification Number: 75-1903742)

CERTIFICATE OF BOARD
AUGUST 31, 2014

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Azleway, Inc. was reviewed and approved disapproved for the year ended August 31, 2014, at a meeting of the governing body of said charter school on the 27 day of FEBRUARY, 2015.



Signature of Board Secretary



Signature of Board President

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
Azleway, Inc.
Tyler, Texas

We have audited the accompanying financial statements of Azleway, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014, 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 Azleway, Inc. as of August 31, 2014, 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.

Emphasis of Matter

As discussed in Note O, to the financial statements, effective August 19, 2014, TEA has revoked and closed Azleway Charter School. Our opinion is not modified with respect to that matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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 20, 2015, on our consideration of Azleway, Inc.'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 Azleway, Inc.'s internal control over financial reporting and compliance.



Houston, TX
February 20, 2015

AZLEWAY, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2014

ASSETS	
Current Assets:	
Cash	\$ 1,360,690
Grants receivable	1,043,847
Other receivables	<u>25,777</u>
Total Current Assets	<u>2,430,314</u>
Property & Equipment	
Land	927,926
Building and improvements	3,984,319
Equipment and furniture	997,794
Automotive equipment	<u>539,582</u>
	6,449,621
Less: Accumulated depreciation	<u>(2,792,942)</u>
Net Property & Equipment	<u>3,656,679</u>
Other Assets	
Deposits	39,371
Other assets	<u>107,733</u>
Total Assets	<u>\$ 6,234,097</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$ 634,273
Accrued expenses	67,243
Accrued wages payable	131,341
Other liabilities	790,594
Payroll taxes payable	40,798
Current portion of notes payable	<u>204,563</u>
Total Current Liabilities	<u>1,868,812</u>
Long-term Liabilities:	
Notes payable net of current portion	<u>1,514,231</u>
Total Liabilities	<u>3,383,043</u>
Net Assets:	
Unrestricted	1,251,678
Temporarily restricted	<u>1,599,376</u>
Total Net Assets	<u>2,851,054</u>
Total Liabilities and Net Assets	<u>\$ 6,234,097</u>

See accompanying notes to financial statements.

AZLEWAY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Federal grants	\$	\$ 1,020,638	\$ 1,020,638
State and local grants		14,919,489	14,919,489
Donations	570,116		570,116
Interest income	170		170
Rental and royalty income	132,239		132,239
Other income	165,206		165,206
Net assets released from restrictions	15,378,292	(15,378,292)	
Total Support and Revenue	<u>16,246,023</u>	<u>561,835</u>	<u>16,807,858</u>
EXPENSES			
Program services	15,247,159		15,247,159
Management and general	998,864		998,864
Total Expenses	<u>16,246,023</u>		<u>16,246,023</u>
Change in net assets		561,835	561,835
Net assets, beginning of year	<u>1,251,678</u>	<u>1,037,541</u>	<u>2,289,219</u>
Net assets, end of year	<u>\$ 1,251,678</u>	<u>\$ 1,599,376</u>	<u>\$ 2,851,054</u>

See accompanying notes to financial statements.

AZLEWAY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2014

	Program Services					Total Program Services	Management & General	Total Expenses
	Residential Treatment	Foster Care	Substance Abuse	PAL Program	Charter School			
Salaries	\$ 1,568,093	\$ 1,477,618	\$ 391,531	\$ 58,494	\$ 2,009,427	\$ 5,505,163	\$ 516,538	6,021,701
Fringe benefits	135,576	95,988	34,225		67,323	333,112	51,654	384,766
Payroll taxes	120,267	110,043	27,176	4,359	62,345	324,190	39,515	363,705
Total Personnel and Related Benefits	1,823,936	1,683,649	452,932	62,853	2,139,095	6,162,465	607,707	6,770,172
Food purchases	92,922	83,917	1,412		60,294	238,545		238,545
Insurance	85,437	73,753	12,584	501	137,123	309,398	7,360	316,758
Supplies	18,386	13,541	27,482	671	144,357	204,437	24,145	228,582
Travel	115,617	117,722	11,554	2,775	19,069	266,737	1,040	267,777
Telephone	35,433	52,200	1,171	720		89,524	10,520	100,044
Rent expense	8,903	307,049	18,000		114,103	448,055	4,771	452,826
Repairs and maintenance	85,431	49,361	13,667			148,459	956	149,415
Professional fees	117,144	5,643,244	12,576	1,139	235,057	6,009,160	29,603	6,038,763
Dues and subscriptions	269	126	118	86		599	1,875	2,474
Postage and delivery	19,968	18,215	114			38,297	4,230	42,527
Conferences and meetings	702	766				1,468	2,818	4,286
Training	2,144	5,575	3,252	340	7,771	19,082	252	19,334
Utilities	197,342	101,893	16,702		76,165	392,102	415	392,517
Advertising	795	153		70		1,018	969	1,987
Auto	104,028	55,732	13,931		982	174,673	6,658	181,331
Interest	107,403	54,342	1,965	31		163,741	36,861	200,602
Fines and penalties	4,292					4,292		4,292
Other taxes	3,402	12,951				16,353		16,353
Bank charges	454	641	216			1,311	3,546	4,857
Commissions							9,262	9,262
Entertainment							19,670	19,670
Other expenses	220,748	80,589	12,207		235,604	549,148		549,148
Total Expenses Before Depreciation	3,044,756	8,355,419	599,883	69,186	3,169,619	15,238,863	772,658	16,011,521
Depreciation					8,296	8,296	226,206	234,502
Total Expenses	<u>\$ 3,044,756</u>	<u>\$ 8,355,419</u>	<u>\$ 599,883</u>	<u>\$ 69,186</u>	<u>\$ 3,177,915</u>	<u>\$ 15,247,159</u>	<u>\$ 998,864</u>	<u>\$ 16,246,023</u>

See accompanying notes to financial statements.

AZELWAY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2014

Cash flows from operating activities	
Change in net assets	\$ 561,835
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation and depletion	234,502
Loss on disposal of assets	3,642
(Increase) decrease in grants receivable	12,327
(Increase) decrease in other receivable	(3,025)
(Increase) decrease in other assets	(32,447)
(Increase) decrease in deposits	(2,500)
Increase (decrease) in accounts payable	61,394
Increase (decrease) in accrued liabilities	(53,330)
Increase (decrease) in other liabilities	(139,038)
Increase (decrease) in accrued wages	4,732
Increase (decrease) in payroll taxes payable	1,307
Increase (decrease) in deferred revenue	<u>(18,061)</u>
Total adjustments	<u>69,503</u>
Net cash provided (used) by operating activities	<u>631,338</u>
Cash flows from investing activities	
Purchase of fixed assets	<u>(148,089)</u>
Net cash provided (used) by investing activities	<u>(148,089)</u>
Cash flows from financing activities	
Repayment of debt	<u>(140,835)</u>
Net cash provided (used) by financing activities	<u>(140,835)</u>
NET INCREASE (DECREASE) IN CASH	<u>342,414</u>
CASH AT BEGINNING OF YEAR	<u>1,018,276</u>
CASH AT END OF YEAR	<u>\$ 1,360,690</u>
<u>Supplemental Disclosures</u>	
Cash paid during the year for:	
Interest	<u>\$ 200,602</u>

See accompanying notes to financial statements.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

A. Organization:

Azleway, Inc. is a private nonprofit organization dedicated to providing innovative and effective general residential operations including residential treatment services, outpatient counseling and therapy, community at-risk youth outreach programs, foster care, and treatment of substance abuse to children who are struggling to overcome emotional, sexual and physical abuse, neglect, abandonment or behavioral problems. The Organization also operates a charter school, whose operations are maintained on a separate accounting system from the Organization. The sources of revenue for the Organization include the following: Department of Family and Protective Services, Juvenile Probation, Texas Commission on Alcohol and Drug Abuse (“TCADA”), Texas Department of State Health Services, Federal and State awards for the operation of the Azleway Charter School, and public donations.

The Organization’s Board of Directors has the overall primary accountability for the fiscal affairs of the entire Organization. The Azleway Charter School has a separate Board of Trustees that has operational accountability for the fiscal affairs of the Azleway Charter School.

The Organization’s current programs include:

Azleway Boys’ Ranch: Inpatient psychological and support services for troubled youth in a rural residential setting. The Ranch program centers around eight family style cottages located on more than 50 acres of wooded land in East Texas. Cottage staff member are live-in personnel who are furnished permanent living quarters at the Ranch.

Support services at the Ranch include licensed administrators, two campus supervisors, two case management/ intake staff, full-time therapeutic recreation staff, psychologists and psychiatrists. Licensed therapists see each child.

Azleway Valley View: This component of Azleway Boys’ Ranch includes a transitional living program in an effort to better prepare adolescents in care for emancipation and integration into community. Included are basic life skills training, vocational preparation training, driver’s education and assistance in job placement.

Therapeutic Recreation Program: The Recreation Center provides recreational activities for the children at the Ranch and features the following activities: billiards, electronic games, table games, ping pong, weightlifting, arts and crafts, and a large screen TV and VCR/DVD. Camping and outdoor activities are also offered frequently.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

A. Organization: (Continued)

Azleway Children's Services ("ACS"): A Foster Care Recruitment Program was initiated by the Organization as a result of thousands of children being referred annually. Foster parents open their homes to these children and provide recreational, educational advocacy, spiritual enhancement, and community interaction. Social workers, psychologists, psychiatrists, and educators provide all professional services. Azleway also has an adoption program to assist in establishing permanency for children whose parent's rights have been terminated. The Organization currently operates the following Foster Care Programs:

East Texas Office: Located in the Organization's Headquarters Office on Azleway Boys' Ranch, ACS has therapeutic homes all over East Texas.

Metroplex Office: ACS has an office in Grand Prairie, Texas, which coordinates foster care services for more than 130 children in the Organization's care in the Dallas/Ft. Worth Metroplex.

Corsicana Office: Through ACS's office in Corsicana, over 40 children are served with two Case Managers, a Regional Director and support staff in the area surrounding Corsicana.

Nacogdoches Office: The Nacogdoches office serves all of Deep East Texas from Nacogdoches to South of Lufkin and from Center to Palestine. This division provides services to almost 100 children.

Humble Office: The Humble office serves all of Southwest Texas including Houston, Beaumont, and all surrounding areas. This growing division provides services to over 120 children in the Houston & Beaumont areas.

Therapeutic Group Homes: ACS also manages six therapeutic group homes or group homes operated by individual foster parents that provide more structure than a traditional foster home.

Bright & Fair Home for Girls: Working in partnership with Smith County Children's Services, ACS operates an eight-bed facility in the Dixie Community for girls from Smith and surrounding Counties. This facility is staffed by an employee of the Organization.

Niva Shalom: Located in Campbell, Texas, this facility has been restructured to provide therapeutic care for up to 12 boys utilizing an experienced foster parent from November 1999 until August 2004. Niva Shalom provided a therapeutic environment in a rural setting for up to twelve girls from all across Texas. Foster parents oversee this important operation.

Triangle Pines: With the assistance of the individual foster parents in this home, Triangle Pines provides transitional foster care for children experiencing difficulties in public school settings. These children are being prepared to return home or to foster care.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

A. Organization: (Continued)

Big Sandy Ranch: Therapeutic services at this location include foster care, outpatient substance abuse counseling, wilderness activities, and counseling with a licensed therapist. Big Sandy ranch is home to Castle Rock and Scroll Creek foster homes (individual foster parents), the Azleway Substance Abuse Program, and a satellite campus of the Azleway Charter School.

Pine Mountain Ranch: Pine Mountain opened in the winter of 2002 near Palestine. This facility is not currently operating.

East Texas Baptist Family Ministries: Services at this location provide care for children on a Basic level of care. In some instances, children with a Moderate level of care will be admitted to this location in an effort to keep sibling groups together. There are currently two group foster homes open at this location. Counseling and case management services are provided by the Organization. This facility is operated under an agreement between ACS and the East Texas Baptist Family Ministries.

Azleway Substance Abuse Program (“ASAP”): is a treatment program for children and adolescents located at the Big Sandy Ranch. ASAP offers outpatient and inpatient services for Medicaid eligible adolescents, clients able to self-pay, and adolescents eligible for TCADA funding.

Azleway Charter School: The Azleway Charter School is an open enrollment charter school that opened September 1, 2001. The Contract for Charter granted by the State Board of Education of the State of Texas pursuant to Chapter 12 of the Texas Education Code is effective until July 31, 2015. The Azleway Charter School was organized to provide educational services to at risk students and is located on the campus of Azleway Boys’ Ranch, Tyler, and the Big Sandy Ranch.

Other Services:

“Papa Bill’s Store” is the on campus food bank program at the Boys’ Ranch, Dallas/Ft. Worth Metroplex, Humble and Nacogdoches offices. All foods are stocked and distributed in a real “store” setting. Youth assist in these areas, and are involved through their cottages or foster homes in meal planning, shopping, and budgeting for adequate foods. The pantry program at the Ranch also provides emergency food assistance to families in the communities surrounding the Ranch.

“Jones General Mercantile” is the on-campus clothing store at the Boys’ Ranch, Grand Prairie, Humble, and Nacogdoches offices. New clothes are purchased at low prices and made available to children in the Ranch and foster care programs. The stores feature name brands and every kind of clothing offered in large department stores. The Grand Prairie, Humble, and Nacogdoches facilities provide clothing for children entering substitute care, back-to-school, Christmas, Easter, and special needs.

Ongoing Staff Training/Development: The Azleway Continuing Education Program provides in-service training that includes First Aid/CPR, Advanced Lifesaving, Restraint Training, Nutrition Training, and training in every area specific to treatment services offered in the Organization’s Programs.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

B. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION

The reporting entity of Azleway, Inc. (the Organization) includes the specific purpose financial statements of the Azleway Charter School, a division of Azleway, Inc. as described in the organization and nature of activities. Financial statement presentation follows the recommendations of the *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities – 205 Presentation of Financial Statements*. Under FASB ASC 958-205, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Organization.

Temporarily restricted net assets

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “net assets released from restrictions.”

Permanently restricted net assets

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include all of the organization’s accounts. All significant intercompany balance and transactions have been eliminated.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimate and assumptions that directly affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH DONATIONS AND DONATED SERVICES

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program service and administration of the organization.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

B. Summary of Significant Accounting Policies: (Continued)

PLEDGES AND ACCOUNTS RECEIVABLE

Contributions are recognized when the donor makes a promise to give a contribution to the organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

CONTRIBUTIONS

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities- 605 Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

SUPPORT AND REVENUE

Support and revenue are recorded based on the accrual method.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

CASH AND CASH EQUIVALENTS

For purpose of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks.

PROPERTY AND EQUIPMENT

Property and equipment purchased by Azleway, Inc. are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All assets acquired with a value in excess of \$5,000 are recorded as fixed assets. Depreciation is provided on the straight-line method based upon estimated useful lives of thirty years for buildings, five to ten years for vehicles, furniture and equipment. Depletion for the royalty interest is calculated using the units of production method and is based on estimated remaining oil and gas reserves. Gains or losses on retired or sale of property and equipment are reflected in income for the period. Depreciation and depletion for the year ended August 31, 2014, amounted to \$224,631 and \$1,575, respectively.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

B. Summary of Significant Accounting Policies: (continued)

INCOME TAXES

The organization qualifies as a tax-exempt organization under section 501c (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

ADVERTISING COSTS

All advertising costs are expensed when incurred. Advertising expense for the year ended August 31, 2014 amounted to \$1987.

CONCENTRATION OF RISK

Azleway, Inc. maintains its cash in bank deposit accounts at highly qualified financial institutions. The balances are generally within federal insurance limits. Azleway, Inc. believes their cash management policies effectively address their cash in bank credit risk.

C. Pension Plan:

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

C. Pension Plan: (Continued)

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2014, 6.7% for fiscal year 2015, 7.2% for fiscal year 2016, and 7.7% for fiscal year 2017, and a state contribution rate of 6.8% for fiscal years 2014 and 2015. The charter school's employee contributions to the system for the year ending August 31, 2014 were \$129,170 equal to the required contributions for the year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the year ending August 31, 2014 was \$10,077.

D. Budget:

The official school budget is prepared for adoption for required Governmental Fund Types. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

E. Operating Lease Commitment:

The organization is currently leasing its equipment and office space on a noncancellable operating lease.

The organization's minimum annual lease commitment is as follows:

<u>Twelve months ending August 31,</u>	<u>Amount</u>
2015	\$ 311,553
2016	230,752
2017	157,856
2018	156,000
2019	135,600
Thereafter	15,800
Total	<u>\$ 1,007,561</u>

Operating lease expense amounted to \$451,462 for the twelve months ended August 31, 2014.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

F. Notes Payable:

The Organization's obligations under notes payable consists of the following:

Note payable to Legacy Land Bank. The note is dated October 1, 2012, at a 7.60% interest rate, payable in 72 installments of \$11,000, a balloon payment of \$881,546 and a face amount of \$1,262,336. The date of maturity is September 1, 2018. The note is collateralized by 500.718 acres of land, including improvements in the Texas counties of Upshur, Smith, and Anderson. The balance at August 31, 2014 is	\$ 1,144,573
Note payable to Legacy Land Bank. The note is dated October 15, 2009, at a 7.25% interest rate, payable in 180 installments of \$2,546 and a face amount of \$278,900. The date of maturity is November 1, 2024. The note is collateralized by 29.711 acres of land, including a building in the Texas county of Smith. The balance at August 31, 2013 is	218,832
Note payable to Conestoga Finance. The note is dated February 14, 2012, at an imputed interest rate of 10.855%, payable in 60 installments of \$466 and a face amount of \$21,488. The note is collateralized by equipment. The balance at August 31, 2014 is	13,969
Note payable to Conestoga Finance. The note is dated February 14, 2013, at an imputed interest rate of 10.2%, payable in 60 installments of \$672 and a face amount of \$31,486. The note is collateralized by equipment. The balance at August 31, 2014 is	20,167
Note payable to Conestoga Finance. The note is dated February 14, 2013, at an imputed interest rate of 9.29%, payable in 60 installments of \$1,101 and a face amount of \$52,678. The note is collateralized by equipment. The balance at August 31, 2014 is	30,827
Note payable to Southside Bank. The note is dated February 10, 2013, at a 4.18% interest rate, payable in 48 installments of \$481 and a face amount of \$21,223. The note is collateralized by a vehicle. The balance at August 31, 2014 is	8,385
Note payable to a Private Party. The note is dated October 15, 2009, at a 7.25% interest rate, payable in 180 installments of \$2,292 and a face amount of \$251,100. The note is collateralized by 63.738 acres of land, in the Texas county of Smith. The balance at August 31, 2014 is	\$ 197,451

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

F. Notes Payable: (Continued)

Note payable to Southside Bank. The note is dated April 3, 2014, at a 3.5% interest rate, payable in 11 installments of \$2,773 and a face amount of \$124,017. The note is collateralized equipment. The balance at August 31, 2014 is	\$ 84,590
Total notes payable	1,718,794
Less: Current portion notes payable	204,563
Notes payable net of current portion	\$ 1,514,231

Maturities of notes payable over the next five years are as follows:

Year Ending August 31,	Amount
2015	\$ 204,563
2016	121,687
2017	111,954
2018	108,109
2019	919,863
Thereafter	252,618
Total	\$ 1,718,794

G. Health Care Coverage:

During the year ended August 31, 2014, employees of the organization were covered by a Health Insurance Plan (the Plan). The organization contributed \$283 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

H. 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 it 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 is economically dependent on these charter school funds.

I. Investments:

Azleway, Inc.'s investments consist of equity securities recorded at fair value based on quoted prices in active markets (all Level 1 measurements) as summarized below:

Unrestricted:	Fair Value
Southside Bancshares, Inc. (351 shares)	\$ 21,784
Sabine FLBA, (200 shares)	1,000
Total	\$ 22,784

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

J. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2014, are available for the following periods:

Periods after August 31, 2014	\$ 1,599,376
Total restricted funds	\$ 1,599,376

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Texas Education Agency	\$ 3,113,974
Texas Department of State Health Services	527,010
Texas Department of Family & Protective Services	11,737,308
Total restrictions released	\$ 15,378,292

K. Related Party Transactions:

The Azleway Substance Abuse Program entered into one lease agreement with Azleway Inc. for space utilized by Azleway Substance Abuse Program. The amount paid for the year ending August 31, 2014 was \$15,300. These amounts were eliminated during consolidation of the financial statements.

L. Other Assets:

Other assets consisted of the following at August 31, 2014:

Cash value of officer's life insurance policy	\$ 23,846
Royalty interest (net of accumulated depletion \$28,304)	38,373
Prepaid expenses	14,961
Prepaid insurance	58,857
Accumulated depletion	(28,304)
Total	\$ 107,733

The insurance policy carried on the life of the former executive director has a face value of \$26,770 at August 31, 2014. The organization is the owner of the policy and pays the premium for the executive director.

Royalty interests consist of two oil leases. The carrying value of the royalty interest was determined by its fair market value at the date of the bequest to the organization. Royalty income totaled \$13,869 for the year ended August 31, 2014.

M. Other Liabilities:

The agency was approved by the Internal Revenue Service to make monthly installment payments of \$17,810 for unpaid payroll tax payments totaling \$1,035,830. A lien was issued by the IRS against Azleway, Inc. until the liability is paid in full. The amount accrued does not include penalties and interest, the remaining balance of this liability is \$790,594 as of August 31, 2014.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

N. Revocation of Charter School

Azleway, Inc. received a TEA revocation notice dated December 20, 2013 stating that the Commissioner of Education is revoking the open-enrollment charter for Azleway Charter School pursuant to Texas Education Code (TEC) section 12.115(c). Effective August 19, 2014, TEA has revoked and closed Azleway Charter School. The charter school funding makes up approximately 20% of Azleway, Inc.'s total revenues and does not impact the operations of other funding sources.

O. Subsequent Events:

Issuance of Bonds

Azleway, Inc. has applied for and been approved for \$3.44 million worth of taxable bonds. The bonds are being issued pursuant to Section 3(a)(4) of the Federal Securities Act of 1933, as amended, and the bond interest income is fully taxable under IRS regulations. The organization has issued a total of \$3.44 million worth of taxable bonds. These funds will be used to refinance a portion of its current indebtedness and pay the IRS all past due amounts. The remaining proceeds will be used as a reserve for on-going operations.

P. Evaluation of Subsequent Events:

Azleway, Inc. has evaluated subsequent events through February 20, 2015, the date which the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To The Board of Directors of
Azleway, Inc.
Tyler, Texas

We have audited the financial statements of Azleway, Inc. as of and for the year ended August 31, 2014, and have issued our report thereon dated February 20, 2015, which expressed an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements dated as a whole. The Schedules for Individual Charter School dated August 31, 2014, pages 19 to 24 is presented for purposes of additional analysis is not a required part of the consolidated 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.



Houston, TX
February 20, 2015

AZLEWAY, INC.
AZLEWAY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2014

ASSETS

Current Assets:

Cash	\$ 187,356
Grants receivable	5,713
Due from Azleway, Inc.	<u>1,384</u>
Total Current Assets	<u>194,453</u>

Property & Equipment

Buildings and improvements	95,916
Automotive equipment	21,056
Furniture and equipment	<u>311,704</u>
	428,676
Less: Accumulated depreciation	<u>(350,917)</u>
Net Property & Equipment	<u>77,759</u>

Other Assets

Prepaid Expenses	<u>4,847</u>
------------------	--------------

Total Assets \$ 277,059

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 3,945
Accrued liabilities	<u>4,741</u>
Total Current Liabilities	<u>8,686</u>

Net Assets:

Unrestricted	(143,127)
Temporarily restricted	<u>411,500</u>

Total Net Assets 268,373

Total Liabilities and Net Assets \$ 277,059

See accompanying notes to financial statements.

AZLEWAY, INC.
AZLEWAY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other revenues from local sources	\$ 53,229	\$	\$ 53,229
5750 Revenues from cocurricular activities	10,713		10,713
Total Local Support	63,942		63,942
State Program Revenues			
5810 Foundation school program act revenues		2,646,507	2,646,507
5820 State program revenues distributed by Texas Education Agency		5,335	5,335
Total State Program Revenues		2,651,842	2,651,842
Federal Program Revenues:			
5920 Federal revenues distributed by Texas Education Agency		469,054	469,054
Total Federal Program Revenues		469,054	469,054
Net assets released from restrictions:			
Restrictions satisfied by payments	3,113,974	(3,113,974)	
Total Revenues	3,177,916	6,922	3,184,838
EXPENSES			
11 Instruction	1,716,518		1,716,518
13 Curriculum Development	55,572		55,572
21 Instructional leadership	32,454		32,454
23 School leadership	200,018		200,018
31 Guidance, counseling, and evaluation service	222,894		222,894
32 Social work services	29,818		29,818
35 Food services	139,940		139,940
36 Cocurricular/ extracurricular activities	2,822		2,822
41 General administration	450,070		450,070
51 Plant maintenance and operations	262,287		262,287
53 Data processing services	60,023		60,023
61 Community services	5,500		5,500
Total Expenses	3,177,916		3,177,916
Change in net assets		6,922	6,922
Net assets, beginning of year	(143,127)	404,578	261,451
Net assets, ending of year	\$ (143,127)	\$ 411,500	\$ 268,373

See accompanying notes to financial statements.

AZLEWAY, INC.
AZLEWAY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2014

Cash flows from operating activities	
Change in net assets	\$ 6,922
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	8,296
(Increase) decrease in grants receivable	51,326
(Increase) decrease in prepaids	(4,847)
Increase (decrease) in accounts payable	3,706
Increase (decrease) in accrued liabilities	2,176
Increase (decrease) in deferred revenue	<u>(18,061)</u>
Total adjustments	<u>42,596</u>
Net cash provided (used) by operating activities	<u>49,518</u>
Purchase of fixed assets	<u>(5,669)</u>
Net cash provided (used) by investing activities	<u>(5,669)</u>
NET INCREASE (DECREASE) IN CASH	<u>43,849</u>
CASH AT BEGINNING OF YEAR	<u>143,507</u>
CASH AT END OF YEAR	<u>\$ 187,356</u>

See accompanying notes to financial statements.

AZLEWAY, INC.
AZLEWAY CHARTER SCHOOL

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2014

Expenses

6100 Payroll costs	\$ 2,279,155
6200 Professional and contracted services	623,616
6300 Supplies and materials	208,624
6400 Other operating costs	<u>66,521</u>
 Total Expenses	 <u>\$ 3,177,916</u>

See accompanying notes to financial statements.

AZLEWAY, INC.
AZLEWAY CHARTER SCHOOL

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2014

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 187,356	\$
1520 Buildings and improvements		95,916	
1541 Vehicles		21,056	
1539 Furniture and equipment		224,237	87,467
Total Property and Equipment	<u>\$</u>	<u>\$ 528,565</u>	<u>\$ 87,467</u>

See accompanying notes to financial statements.

AZLEWAY, INC.
AZLEWAY CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other revenues from local sources	\$ 12,000	\$ 12,000	\$ 53,229	\$ 41,229
5750 Revenues from cocurricular activities			10,713	10,713
Total Local Support	12,000	12,000	63,942	51,942
State Program Revenues:				
5810 Foundation school program act revenues	2,613,365	2,613,365	2,646,507	33,142
5820 State program revenues distributed by Texas Education Agency			5,335	5,335
Total State Program Revenues	2,613,365	2,613,365	2,651,842	38,477
Federal Program Revenues:				
5920 Federal revenues distributed by Texas Education Agency	89,600	89,600	469,054	379,454
Total Federal Program Revenues	89,600	89,600	469,054	379,454
Total Revenues	2,714,965	2,714,965	3,184,838	469,873
EXPENSES				
11 Instruction	1,373,341	1,373,341	1,716,518	(343,177)
13 Curriculum Development	25,000	25,000	55,572	(30,572)
21 Instructional leadership			32,454	(32,454)
23 School leadership	200,700	200,700	200,018	682
31 Guidance, counseling, and evaluation services	219,855	219,855	222,894	(3,039)
32 Social work services	39,500	39,500	29,818	9,682
35 Food service	126,900	126,900	139,940	(13,040)
36 Cocurricular/ extracurricular activities	7,000	7,000	2,822	4,178
41 General administration	277,580	277,580	450,070	(172,490)
51 Plant maintenance and operations	223,960	223,960	262,287	(38,327)
53 Data processing services	54,000	54,000	60,023	(6,023)
61 Community services			5,500	(5,500)
Total Expenses	2,547,836	2,547,836	3,177,916	(630,080)
Change in net assets	167,129	167,129	6,922	(160,207)
Net assets, beginning of year	261,451	261,451	261,451	
Net assets at end of year	\$ 428,580	\$ 428,580	\$ 268,373	\$ (160,207)

See accompanying notes to financial statements.

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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
Azleway, Inc.
Tyler, Texas

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 Azleway, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014, 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 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Azleway, Inc.'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 Azleway, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Azleway, Inc.'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 Azleway, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Ramirez & Company". The signature is written in black ink and is positioned above the typed text.

Houston, TX
February 20, 2015

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

To The Board of Directors of
Azleway, Inc.
Tyler, Texas

Report on Compliance for Each Major Federal Program

We have audited Azleway, Inc.'s (a nonprofit organization) 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 Azleway, Inc.'s major federal programs for the year ended August 31, 2014. Azleway, Inc.'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 Azleway, Inc.'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 Azleway, Inc.'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 Azleway, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Azleway, Inc. 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, 2014.

Report on Internal Control Over Compliance

Management of Azleway, Inc. 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 Azleway, Inc.'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

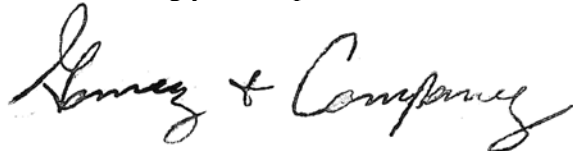
Report on Internal Control Over Compliance (continued)

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 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 cursive script that reads "Honey & Company". The signature is written in black ink and is positioned above the typed name and date.

Houston, TX
February 20, 2015

AZLEWAY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2014

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements.
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. No instances of noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses on internal control over major federal award programs.
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510 (a) of OMB A-133.
7. The programs tested as major programs were:

	<u>CFDA Number</u>
U.S. Department of Health and Human Services Passed – Through Texas Family & Protective Services In-State Adoption Grant	93.556
Passed – Through Texas Department of State Health Services Block Grants for Prevention and Treatment of Substance Abuse	93.959

8. A \$ 300,000 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.
9. Azleway, Inc. does not qualify as a low-risk auditee.

<u>Current Year Findings</u>	<u>Questioned Costs</u>
No audit findings were noted as per governmental auditing standards and Section .510(a) of OMB A-133.	\$ -0-

AZLEWAY, INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2013

FINDINGS – FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

I. Reconciliation of Bank Accounts – Charter School

Condition:

During the audit, we noted that the operating bank account for Azleway Charter School was not reconciled on a timely basis during the year. Numerous audit adjustments had to be recorded to reconcile the bank account balance on the general ledger to present the correct cash balance at August 31, 2013. These audit adjustments are material to the overall financial statements.

Criteria:

All bank accounts should be reconciled and maintained in the manner required by GAAP and TEA's FASRG.

Cause:

There are no procedures in place to ensure all bank activity is recorded in the general ledger and reconciled at the end of each month.

Effect:

Failure to properly reconcile the bank accounts monthly could result in bank activity not being recorded to the general ledger and lead to misstatement of financial reports. This could result in the organization not charging all allowable expenditures to state and federal funds and result in repayment of any non- expended state and federal revenues.

Recommendation:

We recommend that management implement procedures and controls to provide for timely reconciliation of the bank account. We also recommend that management review monthly general ledger activity to ensure all financial transactions are recorded properly.

Views of Responsible Officials and Planned Corrective Actions:

Azleway Charter School experienced significant turnover in its finance department which created difficulty in getting all bank accounts reconciled timely and accurately each month. This problem has been addressed and an experienced financial person has been brought in to maintain the financial records. As a footnote, this person is TASBO certified. Processes have been implemented for management to approve monthly all financial activity including bank reconciliations and monthly general ledger activity to ensure financial transactions are recorded properly.

Responsible Official: Mr. John Chastain, CFO

Estimated Completion Date: December 31, 2013

Status: This item has been resolved.

AZLEWAY, INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2013

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

MATERIAL WEAKNESS

II. Recording of Financial Data and Maintaining of General Ledger – Charter School

Condition:

During the audit, key financial entries had to be recorded to the Charter School's general ledger to correct account balances. The prior year audit adjustments were not properly recorded and or reversed, year-end accruals were not posted and various accounts were not reconciled.

Criteria:

The agency's entries should be recorded in the manner required by GAAP and TEA's FASRG.

Cause:

There are no procedures in place to require management to review the general ledger in a timely manner to ensure all transactions are properly recorded.

Effect:

Without recording of key financial entries and proper coding, the agency does not have an accurate general ledger or current financials to all management to make prudent management decisions.

Recommendation:

We recommend that agency implement procedures and controls to provide for timely recording of financial transactions, month-end entries and year-end closing entries. In addition, the general ledger should be maintained and reviewed monthly. These recommendations have been discussed with the agency's management and action will be taken to insure that the recommendations are implemented.

Views of Responsible Officials and Planned Corrective Actions:

The organization agrees with the finding and the recommended procedures. The recommended procedures have been addressed and implemented. The CFO will review monthly and year end statements to ensure that the recommendations are followed.

Responsible Official: Mr. John Chastain, CFO

Estimated Completion Date: December 31, 2013

Status: This item has been resolved.

AZLEWAY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED AUGUST 31, 2014

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
FEDERAL ASSISTANCE:			
U.S. Department of Health & Human Services			
Passed - Through Texas Department of State Health Services			
Public Health Service II; Block Grant for the Prevention & Treatment of Substance Abuse	93.959	2014-044293-001	\$ 383,584
Passed - Through Texas Department of Family & Protective Services In-State Adoption Grant	93.556	23832381	168,000
Total U.S. Department of Health & Human Services			551,584
<u>U.S. Department of Education</u>			
Passed - Through Texas Education Agency:			
ESEA, Title I, Part A	84.010A	14610101212803	127,518
ESEA, Title I, Part D	84.010A	13610103212803	16,456
ESEA, Title I, Part D	84.010A	14610103212803	15,556
ESEA, Title II, Part A	84.367A	14694501212803	11,639
Texas Title I Priority	84.388A	105520017110005	132,613
Texas Title I Priority	84.388A	105520017110006	51,749
Idea B Formula	84.027A	146600012128036000	33,915
Total U.S. Department of Education			389,446
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
Breakfast	10.553	71401301	3,646
	10.553	71401401	26,272
Lunch	10.555	71301301	5,831
	10.555	71301401	43,859
Total U.S. Department of Agriculture			79,608
Total Expenditures of Federal Awards			\$ 1,020,638

AZLEWAY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED AUGUST 31, 2013

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
STATE ASSISTANCE:			
U.S. Department of Health & Human Services Passed - Through Texas Department of State Health Services Public Health Service II; Block Grant for the Prevention & Treatment of Substance Abuse		2014-044293-001	\$ 80,730
Total Expenditures of State Awards			<u>\$ 80,730</u>
Total Expenditures of Federal and State Awards			<u>\$ 1,101,368</u>

AZLEWAY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED AUGUST 31, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes federal grant activity of Azleway, Inc. under programs of the federal government for the year ended August 31, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations.*" Because the Schedule presents only a selected portion of the operation of Azleway, Inc. it is not intended to and does not present the financial position, changes in net assets or cash flows of Azleway, Inc.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.