

AZLEWAY, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

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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, 2016, and the related statements of activities, functional expenses 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, 2016, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, 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.

A handwritten signature in cursive script, likely representing the firm's name, is written in black ink.

Houston, TX
November 22, 2016

AZLEWAY, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2016

ASSETS	
Current Assets:	
Cash	\$ 1,172,198
Restricted Cash	175,329
Grants receivable	914,312
Other receivables	<u>22,028</u>
Total Current Assets	<u>2,283,867</u>
Property & Equipment	
Land	927,926
Building and improvements	4,224,598
Equipment and furniture	609,691
Automotive equipment	<u>503,988</u>
	6,266,202
Less: Accumulated depreciation	<u>(2,668,067)</u>
Net Property & Equipment	<u>3,598,136</u>
Other Assets	
Deposits	24,721
Bond Issuance Cost	247,076
Other assets	<u>149,684</u>
Total Other Assets	<u>421,481</u>
Total Assets	<u>\$ 6,303,484</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$ 499,314
Accrued expenses	61,186
Accrued payroll liabilities	171,581
Accrued interest	41,787
Current portion of notes payable	39,635
Current portion of bonds payable	<u>261,000</u>
Total Current Liabilities	<u>1,074,503</u>
Long-term Liabilities:	
Notes payable net of current portion	13,578
Bonds payable net of current portion	<u>2,511,000</u>
Total Long-term Liabilities	<u>2,524,578</u>
Total Liabilities	<u>3,599,081</u>
Net Assets:	
Unrestricted	1,853,523
Temporarily restricted	<u>850,880</u>
Total Net Assets	<u>2,704,403</u>
Total Liabilities and Net Assets	<u>\$ 6,303,484</u>

See accompanying notes to financial statements.

AZLEWAY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Federal grants	\$	\$ 571,159	\$ 571,159
State and local grants		10,676,371	10,676,371
Donations	227,188		227,188
Interest income	23		23
Rental and royalty income	91,778		91,778
Other income	170,426		170,426
Net assets released from restrictions	11,247,530	(11,247,530)	
Total Support and Revenue	11,736,945	(0)	11,736,945
EXPENSES			
Program services	10,166,107		10,166,107
Management and general	1,112,120		1,112,120
Total Expenses	11,278,227		11,278,227
Change in net assets	458,718	(0)	458,718
Net assets, beginning of year	1,394,805	850,880	2,245,685
Net assets, end of year	\$ 1,853,523	\$ 850,880	\$ 2,704,403

See accompanying notes to financial statements.

AZLEWAY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2016

	Program Services				Total Program Services	Management & General	Total Expenses
	Residential Treatment	Foster Care	Substance Abuse	Adoption Program			
Salaries	\$ 1,538,928	\$ 1,279,873	\$ 437,204	\$ 78,445	\$ 3,334,450	\$ 396,944	3,731,394
Fringe benefits	124,821	125,239	35,920	(834)	285,146	102,510	387,656
Payroll taxes	115,831	92,585	31,441	5,799	245,656	29,086	274,742
Total Personnel and Related Benefits	1,779,580	1,497,697	504,565	83,410	3,865,252	528,540	4,393,792
Food purchases	63,661	84,993	12,176		160,830	651	161,481
Insurance	103,986	61,225	20,346	2,802	188,359	(0)	188,359
Supplies	17,605	13,634			31,239	6,187	37,426
Travel	122,443	89,376	7,212	1,254	220,285	26,611	246,896
Telephone	40,406	44,094	2,444	720	87,664	9,788	97,452
Rent expense	4,567	289,207	23,985		317,759	5,356	323,115
Repairs and maintenance	97,208	52,741	11,248		161,197	972	162,169
Professional fees	101,520	4,296,426	979	73	4,398,998	102,995	4,501,993
Postage and delivery	6,943	7,011	380		14,334	21,133	35,467
Conferences and meetings	130	140			270		270
Training	2,812	7,177	1,588		11,577	195	11,772
Utilities	211,814	89,457	18,753		320,024	705	320,729
Advertising	145	1,386			1,531	199	1,730
Auto	94,810	27,847	13,826		136,483	786	137,269
Interest	44,392		891		45,283	97,830	143,113
Other taxes	6,049	22,145	3,899	86	32,179	501	32,680
Bank charges	1,762	259	117		2,138	2,666	4,804
Commissions	6,031	922	609		7,562	83	7,645
Entertainment	734	12,566	1,254	83	14,637	1,349	15,986
Other expenses	92,530	48,791	7,185		148,506	72,423	220,929
Total Expenses Before Depreciation	2,799,128	6,647,094	631,457	88,428	10,166,107	878,970	11,045,077
Depreciation, amortization and depletion						233,150	233,150
Total Expenses	\$ 2,799,128	\$ 6,647,094	\$ 631,457	\$ 88,428	\$ 10,166,107	\$ 1,112,120	\$ 11,278,227

See accompanying notes to financial statements.

AZELWAY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2016

Cash flows from operating activities	
Change in net assets	\$ 458,718
Adjustments to reconcile change in net assets to net	
Cash provided (used) by operating activities	
Depreciation and depletion	233,150
Unrealized gain/loss	43,115
(Increase) decrease in grants receivable	67,158
(Increase) decrease in other receivable	2,265
(Increase) decrease in other assets	15,092
(Increase) decrease in deposits	12,500
Increase (decrease) in accounts payable	(19,306)
Increase (decrease) in accrued liabilities	(11,683)
Increase (decrease) in other liabilities	974
Increase (decrease) in accrued wages	<u>2,569</u>
Total adjustments	<u>345,834</u>
Net cash provided (used) by operating activities	<u>804,552</u>
Cash flows from investing activities	
Purchase of fixed assets	(296,877)
Disposal of fixed assets	<u>(146,093)</u>
Net cash provided (used) by investing activities	<u>(442,970)</u>
Cash flows from financing activities	
Repayment of debt	(68,288)
Repayment of bonds	<u>(273,000)</u>
Net cash provided (used) by financing activities	<u>(341,288)</u>
NET INCREASE (DECREASE) IN CASH	<u>20,294</u>
CASH AT BEGINNING OF YEAR	<u>1,327,233</u>
CASH AT END OF YEAR	<u>\$ 1,347,527</u>
<u>Supplemental Disclosures</u>	
Cash paid during the year for:	
Interest	<u>\$ 143,113</u>

See accompanying notes to financial statements.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

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 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 and public donations.

The Organization’s Board of Directors has the overall primary accountability for the fiscal affairs of the entire Organization.

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 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:

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

A. Organization: (Continued)

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 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.

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.

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, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

A. Organization: (Continued)

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.

B. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION

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.”

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

B. Summary of Significant Accounting Policies: (Continued)

BASIS OF PRESENTATION: (Continued)

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.

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.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

B. Summary of Significant Accounting Policies: (Continued)

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, 2016, amounted to \$210,959 and \$1,178, respectively.

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.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

B. Summary of Significant Accounting Policies: (Continued)

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, 2016 amounted to \$1,730.

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. 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>
2017	\$ 240,363
2018	234,382
2019	216,333
2020	98,955
2021	42,192
Total	<u>\$ 832,225</u>

Operating lease expense amounted to \$317,348 for the twelve months ended August 31, 2016.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

D. Notes Payable:

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

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, 2016 is	\$ 2,794
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, 2016 is	4,033
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, 2016 is	4,404
Note payable to Southside Bank. The note is dated April 3, 2015, 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, 2016 is	22,772
Note payable to Southside Bank. The note is dated October 30, 2014, at a 4.25% interest rate, payable in 60 installments of \$528.22 and face value of \$28,500. The note is collateralized by a vehicle. The balance at August 31, 2016 is	19,210
Total notes payable	53,213
Less: Current portion notes payable	39,635
Notes payable net of current portion	<u>\$ 13,578</u>

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

Year Ending August 31,	Amount
2017	\$ 39,635
2018	5,875
2019	6,130
2020	1,573
Total	<u>\$ 53,213</u>

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

E. Bonds Payable:

The Organization has issued a total of \$3,330,000 worth of taxable bonds. These funds were used to pay-off current obligation and provide working capital. The bond is limited obligations of the issuer payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower. The organization pledges the first receipts of its income and revenue from all sources as may be necessary to pay such obligations. The bonds are secured by a first mortgage on certain land and improvements.

Bonds payable at August 31, 2016 consist of the following:

\$1,000,000 Bonds, 4.0% interest; principle due semi-annually commencing November 10, 2014 and interest due semi-annually commencing November 10, 2014. Maturity dates range from 2015 to 2020.	\$ 632,000
\$2,330,000 Bonds, 4.0% interest; principle due semi-annually commencing November 10, 2014 and interest due semi-annually commencing November 10, 2014. Maturity dates range from 2015 to 2034.	2,140,000
Total	2,772,000
Less current portion	(261,000)
	\$ 2,511,000

Future maturities of long-term debt at August 31, 2016 are as follows:

Year Ending August 31,	Amount
2017	\$ 261,000
2018	263,000
2019	249,000
2020	238,000
2021	112,000
Thereafter	1,649,000
Total	\$ 2,772,000

The organization is required to maintain a debt service reserve account and two bond sinking accounts. The balance in the debt service reserve at August 31, 2016 was \$69,265. In order to maintain the bond sinking funds the organization is required by the trustee to pay principle and interest on a weekly basis into each bond sinking fund in the amounts of \$4,091 and \$3,730 respectively. The balance in the bond sinking funds at August 31, 2016 were \$42,173 and \$63,891 respectively.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

F. 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. (372 shares)	\$ 28,268
Total	\$ 28,268

G. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2016, are available for the following periods:

Periods after August 31, 2016	\$ 850,880
Total restricted funds	\$ 850,880

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 Department of State Health Services	\$ 569,783
Texas Department of Family & Protective Services	10,677,747
Total restrictions released	\$ 11,247,530

H. Other Assets:

Other assets consisted of the following at August 31, 2016:

Cash value of officer's life insurance policy	\$ 29,844
Royalty interest (net of accumulated depletion \$30,843)	38,373
Salary Advances	9,650
Prepaid insurance	102,659
Accumulated depletion	(30,842)
Total	\$ 149,684

The insurance policy carried on the life of the former executive director has a face value of \$29,844 at August 31, 2016. 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 \$4,676 for the year ended August 31, 2016.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

I. Lawsuits:

Azleway, Inc. is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have material adverse effect on the financial position of the company.

J. Evaluation of Subsequent Events:

Azleway, Inc. has evaluated subsequent events through November 22, 2016, the date which the financial statements were available to be issued.

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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, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 22, 2016.

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
November 22, 2016

AZLEWAY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2016

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements were prepared in accordance with GAAP.
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. An audit of major programs was not required because of expenditures of federal awards were less than \$750,000.

<u>Current Year Findings</u>	<u>Questioned Costs</u>
No audit findings were noted as per governmental auditing standards	\$ -0-

AZLEWAY, INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2016

No audit findings were noted as per governmental auditing standards and Section .510(a) of OMB A-133 for the period ended August 31, 2015