

**AZLEWAY, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED AUGUST 31, 2019**

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INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of Azleway, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2019, 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

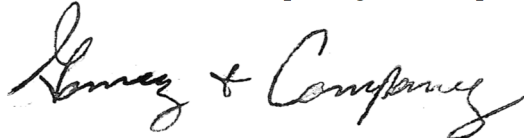
***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 January 13, 2020, 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 solely 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 the effectiveness of Azleway's 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  
January 13, 2020

AZLEWAY, INC.  
STATEMENT OF FINANCIAL POSITION  
August 31, 2019

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 220,525
Restricted Cash	117,615
Investments	643,400
Grants Receivable	582,406
Other Receivables	10,571
Prepays	129,973
TOTAL CURRENT ASSETS	1,704,490
PROPERTY AND EQUIPMENT	
Land	834,069
Building and Improvements	3,630,120
Furniture and Equipment	581,068
Vehicles	379,004
	5,424,261
Less: Accumulated Depreciation	(2,713,967)
	2,710,294
OTHER ASSETS	
Deposits	21,791
Other Assets	34,351
Total Other Assets	56,142
TOTAL ASSETS	\$ 4,470,926
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable	\$ 402,185
Accrued Payroll Liabilities	105,879
Accrued Interest	36,359
Current Portion Notes Payable	7,742
Current Portion Bonds Payable	94,000
TOTAL CURRENT LIABILITIES	646,165
NONCURRENT LIABILITIES	
Noncurrent portion of Notes Payable	9,942
Noncurrent portion of Bonds Payable net of Issuance costs	1,595,330
TOTAL NONCURRENT LIABILITIES	1,605,272
TOTAL LIABILITIES	2,251,437
NET ASSETS	
Without Donor Restrictions	1,604,853
With Donor Restrictions	614,636
TOTAL NET ASSETS	2,219,489
TOTAL LIABILITIES NET ASSETS	\$ 4,470,926

See accompanying notes to financial statements.

AZLEWAY, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES			
Federal Grants	\$ -	\$ 929,806	\$ 929,806
State and Local Grants	-	7,784,015	7,784,015
Donations	218,547	-	218,547
Interest Income	15,556	-	15,556
Rental and Royalty Income	7,479	-	7,479
Other Income	109,854	-	109,854
Net Assets release from Restrictions	<u>8,950,065</u>	<u>(8,950,065)</u>	
Total Revenues	<u>9,301,501</u>	<u>(236,244)</u>	<u>9,065,257</u>
Expenses			
Program Services	8,874,536	-	8,874,536
Management and General	<u>525,669</u>	<u>-</u>	<u>525,669</u>
Total Expenses	9,400,205	-	9,400,205
CHANGE IN NET ASSETS	<u>(98,704)</u>	<u>(236,244)</u>	<u>(334,948)</u>
NET ASSETS, beginning of year as restated	<u>1,703,557</u>	<u>850,880</u>	<u>2,554,437</u>
NET ASSETS, end of year	<u>\$ 1,604,853</u>	<u>\$ 614,636</u>	<u>\$ 2,219,489</u>

See accompanying notes to financial statements.

AZLEWAY, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2019

	Program Services					Supporting Services			Total Expenses
	Residential Treatment	Foster Care	Substance Abuse	Adoption Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 874,115	\$ 1,299,125	\$ 821,629	\$ 53,447	\$ 3,048,316	\$ 40,000	\$ 26,816	\$ 66,816	\$ 3,115,132
Employee Benefits	222,887	227,864	136,698	12,445	599,894	2,882	4,367	7,249	607,143
Payroll Taxes	70,406	95,802	60,400	4,002	230,610	778	1,971	2,749	233,359
Total Personnel and Related Benefits	<u>1,167,408</u>	<u>1,622,791</u>	<u>1,018,727</u>	<u>69,894</u>	<u>3,878,820</u>	<u>43,660</u>	<u>33,154</u>	<u>76,814</u>	<u>3,955,634</u>
Food Purchases	13,770	43,953	1,163	146	59,032	-	19	19	59,051
Insurance	43,292	58,492	38,524	3,981	144,289	7,580	9,915	17,495	161,784
Supplies	59,038	59,001	29,132	1,721	148,892	17,307	187	17,494	166,386
Travel	8,648	75,981	226	853	85,708	2,435	-	2,435	88,143
Telephone	15,848	34,595	2,158	780	53,381	-	-	-	53,381
Occupancy	3,001	284,624	14,226	-	301,851	6,507	300	6,807	308,658
Repairs and Maintenance	29,704	41,879	14,880	-	86,463	2,669	1,099	3,768	90,231
Professional Fees	22,241	3,491,330	12,734	817	3,527,122	23,007	-	23,007	3,550,129
Postage and Shipping	1,220	5,714	161	-	7,095	2,336	-	2,336	9,431
Conference and Meetings	-	225	-	-	225	285	-	285	510
Training	2,270	12,743	1,395	-	16,408	2,782	-	2,782	19,190
Utilities	159,238	96,452	35,740	-	291,430	7,170	14,448	21,618	313,048
Advertising	6,517	1,828	686	-	9,031	8,876	-	8,876	17,907
Auto Expense	72,840	29,514	20,594	-	122,948	3,344	-	3,344	126,292
Interest Expense	1,016	-	208	-	1,224	113,633	-	113,633	114,857
Other Taxes	3,986	2,168	-	-	6,154	833	-	833	6,987
Bank Charges	2,082	84	114	-	2,280	9,951	-	9,951	12,231
Miscellaneous	97,574	24,396	10,213	-	132,183	41,374	-	41,373	173,556
Total Expenses Before Depreciation	<u>\$ 1,709,693</u>	<u>\$ 5,885,770</u>	<u>\$ 1,200,881</u>	<u>\$ 78,192</u>	<u>\$ 8,874,536</u>	<u>\$ 293,749</u>	<u>\$ 59,122</u>	<u>\$ 352,870</u>	<u>\$ 9,227,406</u>
Depreciation, Amortization and Depletion						172,799		172,799	172,799
Total Expenses	<u>\$ 1,709,693</u>	<u>\$ 5,885,770</u>	<u>\$ 1,200,881</u>	<u>\$ 78,192</u>	<u>\$ 8,874,536</u>	<u>\$ 466,548</u>	<u>\$ 59,122</u>	<u>\$ 525,669</u>	<u>\$ 9,400,205</u>

See accompanying notes to financial statements.

AZLEWAY, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (334,948)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation, Amortization and Depletion	172,799
(Increase) decrease in grants receivable	275,912
(Increase) decrease in other receivable	37,671
(Increase) decrease in Deposits	2,930
(Increase) decrease in other assets	11,143
Increase (decrease) in accounts payable	(133,818)
Increase (decrease) in accrued wages	(65,417)
Increase (decrease) in payroll taxes payable	(16,319)
Increase (decrease) in interest payable	(3,812)
Total Adjustments	281,089
Net cash provided (used) by Operating Activities	(53,859)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment	53,289
Purchase of Fixed Assets	(5,000)
Net cash provided (used) by Investing Activities	48,289

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of long-term debt	(13,815)
Repayment of bonds	(95,000)
Net cash provided (used) by Financing Activities	(108,815)

NET INCREASE (DECREASE) IN CASH (114,385)

CASH AT BEGINNING OF YEAR, AS RESTATED 452,525

CASH AT END OF YEAR \$ 338,140

Supplemental Disclosures

Cash Paid During the Year for:

Interest	\$ 114,857
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See accompanying notes to financial statements.



AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

A. Organization:

Azleway, Inc. (the organization) 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, 2019

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.

**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, 2019

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

The financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. The organization 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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

NEW ACCOUNTING PRONOUNCEMENT

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the organization, including required disclosures about liquidity and availability of resources and increased disclosures on August 31, 2019 and thereafter and must be applied on a retrospective basis. The organization adopted the ASU effective September 1, 2018. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

B. Summary of Significant Accounting Policies: (Continued)

CLASSIFICATION OF NET ASSETS

Net assets of the organization are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

*Net Assets Without Donor Restrictions* – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

*Net Assets with Donor Restrictions* – Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the organization. Certain restrictions may need to be maintained in perpetuity.

Earnings related to restricted net assets will be included in net assets without donor-restrictions unless otherwise specifically required to be included in donor-restricted net assets by the donor or by applicable state law.

On occasion, the governing board may designate a portion of net assets without donor restrictions for a specific purpose. Designated net assets are not governed by donor-imposed restrictions and may be reversed by the governing board at any time.

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.

FAIR VALUE

Fair value of assets and liabilities approximate the carrying value.

FAIR VALUE MEASUREMENTS

FASB ASC 820 *Fair Value Measurement* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2: Significant direct or indirect, observable inputs other than quoted prices;

Level 3: Unobservable inputs based on assumptions of the reporting entity.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

B. Summary of Significant Accounting Policies: (Continued)

FAIR VALUE MEASUREMENTS (CONTINUED)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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 the net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 with donor restrictions and without donor restrictions 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

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

B. Summary of Significant Accounting Policies: (Continued)

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. The organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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.

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, 2019, amounted to \$155,460 and \$786, 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.

ADVERTISING COSTS

All advertising costs are expensed when incurred. Advertising expense for the year ended August 31, 2019 amounted to \$808.

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.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

C. Liquidity and Availability of Financial Assets:

The following reflects the Organization’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

Financial assets at year-end		
Cash		338,140
Investments		643,400
Accounts Receivable		592,977
Prepays		129,973
Total Financial assets at year-end	\$	1,704,490
Less those unavailable for general expenditures within one year, due to:		
Donor-restricted imposed restrictions as to use:		614,636
Financial assets available to meet cash needs for general expenditure within one year	\$	1,089,854

The Organization manages its liquid assets conservatively within standard depository bank accounts at national banks. Cash is managed to provide sufficient funds for meeting program expenditures of the Organization.

D. Operating Lease Commitment:

The organization is currently leasing its equipment and office space on a noncancellable operating lease. All leases expire by June 2024.

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

Twelve months ending August 31,	Amount
2020	\$ 206,729
2021	136,740
2022	94,548
2023	25,548
2024	5,532
Total	\$ 469,097

Operating lease expense amounted to \$308,658 for the twelve months ended August 31, 2019.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

E. Notes Payable:

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

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, 2019 is	\$ 1,575
Note payable to Southside Bank. The note is dated February 12, 2018, at a variable interest rate using a rate of 4.5% point over the index. The note is payable in 48 installments of \$573.85 and a face value of \$24,630. The note is collateralized by a vehicle. The balance at August 31, 2019 is	16,109
Total notes payable	17,684
Less: Current portion notes payable	(7,742)
Notes payable net of current portion	\$ 9,942

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

Year Ending August 31,	Amount
2020	\$ 7,742
2021	6,515
2022	3,427
Total	\$ 17,684

F. Bonds Payable:

In November 10, 2014, Azleweay, Inc. 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.

The organization is required to maintain a debt service reserve account and a bond sinking accounts. The balance in the debt service reserve at August 31, 2019 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 the bond sinking fund with a total annual amount of \$6,084. The balance in the bond sinking fund 6101 at August 31, 2019 was \$48,350.



AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

F. Bonds Payable: (Continued)

Bonds payable at August 31, 2019 consist of the following:

\$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.

	\$ 1,855,000
Less current portion	(94,000)
Less bond issuance cost	(165,670)
	\$ 1,595,330

Future maturities of long-term debt at August 31, 2019 are as follows:

Year Ending August 31,	Amount
2020	\$ 94,000
2021	112,000
2022	96,000
2023	96,000
2024	126,000
Thereafter	1,331,000
Total	\$ 1,855,000

G. Investments:

Investment balances within the fair value hierarchy at August 31, 2019 are as follows:

Fair Value Measurements at August 31, 2019

	Level 1	Totals
Fixed Income	\$ 245,854	\$ 245,854
Equities	397,546	397,546
Total Investments at Fair Value:	\$ 643,400	\$ 643,400

Net realized/unrealized gains and investment account fees for the year totaled \$3,111 and \$8,462 respectively.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

H. Net Assets with Donor Restrictions:

Net Assets with donor restrictions at August 31, 2019, are available for the following periods:

Periods after August 31, 2019:	
John and Mary M. Tracy Endowment	\$ 614,636
Total restricted funds	<u>\$ 614,636</u>

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

U.S. Department of Health and Human Services (Federal)	\$ 857,056
Texas Department of Family & Protective Services	6,960,410
Other State and local grants	1,132,599
Total restrictions released	<u>\$ 8,950,065</u>

I. Other Assets:

Other assets consisted of the following at August 31, 2019:

Cash value of officer's life insurance policy	\$ 29,844
Royalty interest	38,373
Accumulated Depletion	(33,866)
Total	<u>\$ 34,351</u>

The insurance policy carried on the life of the former executive director has a face value of \$29,844 at August 31, 2019. 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 \$ 6,679 for the year ended August 31, 2019.

J. 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.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

K. Prior Period Adjustment:

During the year ended August 31, 2019 an adjustment was made to net assets related to a dormant bank account of a previous activity by the organization. The balance on this account was not previously recorded as part of Azleway's cash balance. The account had an amount of \$188,346 and had no other activity during the audit period. The prior period adjustment increased net assets as follows:

Beginning net assets	2,366,091
Prior year adjustment	<u>188,346</u>
Net assets, beginning of year as restated	<u>\$ 2,554,437</u>

L. Evaluation of Subsequent Events:

Azleway, Inc. has evaluated subsequent events through January 13, 2020, the date which the financial statements were available to be issued.

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**CERTIFIED PUBLIC ACCOUNTANTS**  
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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, 2019, 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 January 13, 2020.

**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 black ink that reads "Ramsey & Company". The signature is written in a cursive, flowing style.

Houston, TX  
January 13, 2020

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2019.

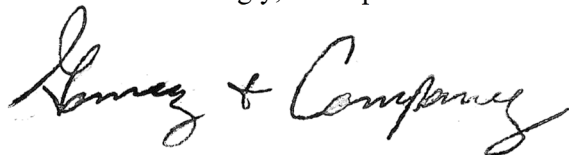
## Report on Internal Control over Compliance

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 compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Azleway Inc.'s internal control over compliance.

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

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

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



Houston, TX  
January 13, 2020

AZLEWAY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2019

**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. No significant deficiencies or material weaknesses on internal control over major federal award.
5. The auditor's report on compliance for the major federal program expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any findings which are required to be reported in accordance with 2 CFR section 200.516(a).
- 7: Major programs:

	CFDA Number:
U.S. Department of Health and Human Services	
Passed – Through Texas Department of State Health Services	
Block Grants for Prevention and Treatment of Substance Abuse	93.959
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. Azleway qualifies as a low-risk auditee.

Current Year Findings

No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a) for the year ended August 31, 2019.

Questioned  
Costs

                      
\$ -0-



AZLEWAY, INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2019

No audit findings were noted as per governmental auditing standards and 2 CFR Section 200.516 (a) for the year ended August 31, 2018. \$-0-

AZLEWAY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2019

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
<b>FEDERAL ASSISTANCE:</b>			
U.S. Department of Health & Human Services			
Passed - Through Texas Department of State Health Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048553-003	\$ 857,056
Passed - Through Texas Department of Family & Protective Services			
IVB Pt 2 - Family Preservation	93.556	24251433	<u>72,750</u>
Total U.S. Department of Health & Human Services			<u>929,806</u>
Total Expenditures of Federal Awards			<u>\$ 929,806</u>

AZLEWAY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2019

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying schedule of federal awards (the Schedule) includes federal award activity of Azleway, Inc. under programs of the federal government for the year ended August 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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.

***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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

***Indirect Cost Rate***

Azleway, Inc. has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

***Subrecipients***

No awards were passed through to subrecipients.