

AZLEWAY, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2021

TABLE OF CONTENTS

	Page No.
Independent Auditor's Report	1
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7
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	16
Schedule of Findings and Questioned Costs	18
Schedule of Prior Year Findings	19

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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, 2021, 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, 2021, 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 January 14, 2022, 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.

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

Houston, TX
January 14, 2022

AZLEWAY, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2021

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 1,076,208
Investments	831,067
Grants Receivable	559,952
Prepays	156,041
TOTAL CURRENT ASSETS	2,623,268
PROPERTY AND EQUIPMENT	
Land	582,569
Building and Improvements	3,508,320
Furniture and Equipment	581,068
Vehicles	350,883
	5,022,840
Less: Accumulated Depreciation	(2,982,132)
	2,040,708
OTHER ASSETS	
Deposits	23,296
Other Assets	33,112
Total Other Assets	56,408
TOTAL ASSETS	\$ 4,720,384
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable	\$ 399,650
Accrued Payroll Liabilities	120,354
Current Portion Notes Payable	122,754
TOTAL CURRENT LIABILITIES	642,758
LONG-TERM LIABILITIES	
Notes Payable Net of Current Portion	1,270,867
TOTAL LONG-TERM LIABILITIES	1,270,867
TOTAL LIABILITIES	1,913,625
NET ASSETS	
Without Donor Restrictions	2,016,969
With Donor Restrictions	789,790
TOTAL NET ASSETS	2,806,759
TOTAL LIABILITIES AND NET ASSETS	\$ 4,720,384

See accompanying notes to financial statements.

AZLEWAY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES			
Federal Grants	\$ -	\$ 561,273	\$ 561,273
State and Local Grants	-	6,541,922	6,541,922
Donations	187,508	-	187,508
Interest Income	12,262	-	12,262
Rental and Royalty Income	4,507	-	4,507
Other Income	725,295	-	725,295
Net Assets release from Restrictions	6,989,647	(6,989,647)	-
Total Revenues	<u>7,919,219</u>	<u>113,548</u>	<u>8,032,767</u>
Expenses			
Program Services	7,328,940	-	7,328,940
Management and General	508,038	-	508,038
Total Expenses	<u>7,836,978</u>	<u>-</u>	<u>7,836,978</u>
CHANGE IN NET ASSETS	<u>82,241</u>	<u>113,548</u>	<u>195,789</u>
NET ASSETS, beginning of year	<u>1,934,728</u>	<u>676,242</u>	<u>2,610,970</u>
NET ASSETS, end of year	<u>\$ 2,016,969</u>	<u>\$ 789,790</u>	<u>\$ 2,806,759</u>

See accompanying notes to financial statements.

AZLEWAY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021

	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	\$ 452,709	\$ 1,324,839	\$ 798,070	\$ 53,011	\$ 2,628,629	\$ -	\$ -	\$ -	\$ 2,628,629
Employee Benefits	93,364	3,132,040	117,261	8,023	3,350,688	5,981	-	5,981	3,356,669
Payroll Taxes	34,994	96,058	57,407	3,089	191,548	-	-	-	191,548
Total Personnel and Related Benefits	<u>581,067</u>	<u>4,552,937</u>	<u>972,738</u>	<u>64,123</u>	<u>6,170,865</u>	<u>5,981</u>	<u>-</u>	<u>5,981</u>	<u>6,176,846</u>
Food Purchases	4,399	15,950	1,185	-	21,534	616	-	616	22,150
Insurance	46,660	72,462	43,609	2,059	164,790	-	17,658	17,658	182,448
Supplies	26,376	68,406	26,764	1,728	123,274	4,812	-	4,812	128,086
Travel	4,140	66,360	35	549	71,084	2,516	-	2,516	73,600
Occupancy	3,153	210,389	10,403	-	223,945	(246)	-	(246)	223,699
Repairs and Maintenance	30,810	44,232	18,477	-	93,519	673	-	673	94,192
Professional Fees	10,422	30,115	17,215	1,108	58,860	-	-	-	58,860
Dues and Subscriptions	1,005	10,188	3,672	-	14,865	1,528	-	1,528	16,393
Postage and Shipping	1,489	5,721	81	76	7,367	970	-	970	8,337
Conference and Meetings	-	485	-	-	485	300	-	300	785
Training	1,008	5,038	241	74	6,361	-	-	-	6,361
Utilities	60,247	95,530	49,724	1,060	206,561	2,812	5,598	8,410	214,971
Advertising	-	4,535	-	-	4,535	-	-	-	4,535
Auto Expense	26,267	13,409	15,140	-	54,816	1,473	-	1,473	56,289
Interest Expense	300	-	-	-	300	249,757	-	249,757	250,057
Other Taxes	-	-	-	-	-	-	-	-	-
Bank Charges	1,567	350	-	-	1,917	13,240	-	13,240	15,157
Miscellaneous	33,791	55,775	13,491	805	103,862	44,224	-	44,224	148,086
Total Expenses Before Depreciation	<u>832,701</u>	<u>5,251,882</u>	<u>1,172,775</u>	<u>71,582</u>	<u>7,328,940</u>	<u>328,656</u>	<u>23,256</u>	<u>351,912</u>	<u>7,680,852</u>
Depreciation, Amortization and Depletion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 156,126	\$ -	\$ 156,126	\$ 156,126
Total Expenses	<u>\$ 832,701</u>	<u>\$ 5,251,882</u>	<u>\$ 1,172,775</u>	<u>\$ 71,582</u>	<u>\$ 7,328,940</u>	<u>\$ 484,782</u>	<u>\$ 23,256</u>	<u>\$ 508,038</u>	<u>\$ 7,836,978</u>

See accompanying notes to financial statements.

AZLEWAY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets		\$	195,789
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation, Amortization and Depletion			156,126
(Increase) decrease in grants receivable			107,445
(Increase) decrease in other receivable			36,056
(Increase) decrease in Deposits			(1,505)
(Increase) decrease in other assets			(54,582)
Increase (decrease) in accounts payable			(24,292)
Increase (decrease) in accrued wages			4,309
Increase (decrease) in payroll taxes payable			1,261
Increase (decrease) in interest payable			(39,776)
Total Adjustments			185,042
Net cash provided (used) by Operating Activities			380,831

CASH FLOWS FROM INVESTING ACTIVITIES

Investment			(129,329)
Purchase of Fixed Assets			(54,420)
Disposal of Assets			251,500
Net cash provided (used) by Investing Activities			67,751

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from notes			1,400,000
Repayment of long-term debt			(605,346)
Repayment of bonds			(1,615,681)
Net cash provided (used) by Financing Activities			(821,027)

NET INCREASE (DECREASE) IN CASH			(372,445)
CASH AT BEGINNING OF YEAR			1,448,653
CASH AT END OF YEAR		\$	1,076,208

Supplemental Disclosures

Cash Paid During the Year for:

Interest		\$	250,057
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See accompanying notes to financial statements.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021

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 Health and Human Services Commission and public donations.

The Organization's Board of Directors has the overall primary accountability for the fiscal affairs of the entire Organization and its programs which include:

Azleway Valley View: Residential care with psychological and support services to abused and neglected youth in a rural residential setting. The program centers around four family style cottages located on more than 50 acres of wooded land in East Texas. Care workers, licensed administrators, supervisors, case managers, and licensed therapist provide trauma informed care and supervision. Transitional living services are provided 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 and features the following activities: billiards, electronic games, table games, ping pong, weightlifting, and arts and crafts. Camping and outdoor activities are also offered.

Azleway Children's Services ("ACS"): Foster parents open their homes to children and youth from hard places who have experienced the trauma of abuse and neglect. Recreational, educational, spiritual enhancement, and community interaction services are provided by the foster parents and treatment team which includes social workers, psychologists, psychiatrists, and educators. Azleway's adoption program assists 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 in the Dallas/Ft. Worth Metroplex.

Nacogdoches Office: The Nacogdoches office serves all of Deep East Texas from Nacogdoches to Livingston and from Center to Palestine.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021

A. Organization: (Continued)

Humble Office: The Humble office serves all of Southwest Texas including Houston, Beaumont, and surrounding areas.

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.

Other Services:

“Papa Bill’s Store” is the on-campus food bank program at the Boys’ Ranch, Dallas/Ft. Worth Metroplex, and Humble 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, Crisis Management, Trauma Informed Care, 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.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021

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.

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.

FAIR VALUE

Fair value of assets and liabilities approximate the carrying value.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021

B. Summary of Significant Accounting Policies: (Continued)

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.

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.

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.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021

B. Summary of Significant Accounting Policies: (Continued)

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. 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, 2021, amounted to \$146,291 and \$571, 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, 2021

B. Summary of Significant Accounting Policies: (Continued)

ADVERTISING COSTS

All advertising costs are expensed when incurred. Advertising expense for the year ended August 31, 2021 amounted to \$4,535.

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. 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	\$ 1,076,208
Investments	831,067
Accounts Receivable	559,952
Prepays	156,041
Total Financial assets at year-end	\$ 2,623,268
Less those unavailable for general expenditures within one year, due to:	
Donor-restricted imposed restrictions as to use:	789,790
Financial assets available to meet cash needs for general expenditure within one year	\$ 1,833,478

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.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021

D. Operating Lease Commitment:

The organization is currently leasing its equipment and office space on a noncancellable operating lease. All leases expire by February 2026.

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

Twelve months ending August 31,	Amount
2022	\$ 196,034
2023	128,601
2024	108,440
2025	82,628
2026	40,428
Total	\$ 556,131

Operating lease expense amounted to \$223,699 for the twelve months ended August 31, 2021.

E. Notes Payable:

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

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, 2021 is	\$ 3,382
Note Payable to Texas Bank and Trust Loan. Note is dated July 15, 2021 with a variable interest of 3.5% prime rate. The note is payable in 120 installments of \$13,844 and has a face value of \$1,400,000 with a due date of July 15, 2031. The balance at August 31, 2021 is	1,390,239
Total notes payable	1,393,621
Less: Current portion notes payable	(122,754)
Notes payable net of current portion	\$ 1,270,867

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

Year Ending August 31,	Amount
2022	\$ 122,754
2023	123,619
2024	128,015
2025	132,568
2026	137,284
Thereafter	749,381
Total	\$ 1,393,621

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021

F. Paycheck Protection Program Loan:

The Organization was approved for and received a loan under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) for the amount of \$589,040. The loan is dated April 16, 2020 and may be forgiven to the extent proceeds of the loan are used for eligible expenditures that consist primarily of payroll, as well as other expenses described under the legislation. The loan bears interest at a rate of 1.00% and is deferred for the first six months of the loan after which time the interest is added to the unpaid principal balance. The loan may be repaid at any time with no prepayment penalty. The Agency expects to meet the PPP eligibility criteria and has determine that the PPP loan is in substance a conditional grant that is expected to be forgiven and will account for PPP loan in accordance with ASC 958-605. The organization applied for forgiveness of this loan on October 30, 2020 and the loan was forgiven on December 8, 2020.

G. Investments:

Investment balances within the fair value hierarchy at August 31, 2021 are as follows:

Fair Value Measurements at August 31, 2021

	Level 1	Totals
Fixed Income	\$ 315,916	\$ 315,916
Equities	515,151	515,151
Total Investments at Fair Value:	\$ 831,067	\$ 831,067

Net realized/unrealized gains and investment account fees for the year totaled \$49,087 and \$8,722 Respective

H. Net Assets with Donor Restrictions:

Net Assets with donor restrictions at August 31, 2021, are available for the following periods:

Periods after August 31, 2021:

John and Mary M. Tracy Endowment	\$ 789,790
Total restricted funds	\$ 789,790

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)	\$ 561,273
Texas Department of Family & Protective Services	5,837,154
Other State and Local Grants	591,220
Total restrictions released	\$ 6,989,647

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021

I. Other Assets:

Other assets consisted of the following at August 31, 2021:

Cash value of officer's life insurance policy	\$	29,844
Royalty interest		38,373
Accumulated Depletion		<u>(35,105)</u>
Total	\$	<u>33,112</u>

The insurance policy carried on the life of the former executive director has a face value of \$29,844 at August 31, 2021. 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 \$ 4,507 for the year ended August 31, 2021.

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.

K. Evaluation of Subsequent Events:

Azleway, Inc. has evaluated subsequent events through January 14, 2022, the date which the financial statements were available to be issued.

GOMEZ & COMPANY

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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, 2021, 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 14, 2022.

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 14, 2022

AZLEWAY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2021

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 expenditures of federal awards were less than \$750,000.

Findings Relating to the Financial Statements

No audit findings were noted as per governmental auditing standards.

AZLEWAY, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2021

No audit findings were noted as per governmental auditing standards for the year ended August 31, 2020.

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