

AZLEWAY, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2023



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 <i>Government Auditing Standards</i>	16
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	18
Schedule of Findings and Questioned Costs	21
Schedule of Prior Year Findings	22
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Azleway, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Azleway, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Azleway, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Azleway, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Azleway, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Supplementary 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 11, 2024, 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, Inc.'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 Professional Accounting Corporation

Houston, TX
January 11, 2024

AZLEWAY, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2023

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 256,662
Investments	738,241
Grants Receivable	513,550
Other Receivables	473
Prepays	207,440
TOTAL CURRENT ASSETS	1,716,366
PROPERTY AND EQUIPMENT	
Land	582,569
Building and Improvements	3,515,467
Furniture and Equipment	602,126
Vehicles	272,904
	4,973,066
Less: Accumulated Depreciation	(3,135,876)
	1,837,190
OTHER ASSETS	
Right of Use Asset, Operating Lease, Net	389,698
Deposits	23,346
Other Assets	32,165
Total Other Assets	445,209
TOTAL ASSETS	\$ 3,998,765
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable	\$ 418,588
Accrued Payroll Liabilities	123,024
Current Portion Operating Lease Payable	185,341
Current Portion Notes Payable	128,015
TOTAL CURRENT LIABILITIES	854,968
LONG-TERM LIABILITIES	
Operation Lease Payable, Net of Current Portion	204,357
Notes Payable Net of Current Portion	1,019,353
TOTAL LONG-TERM LIABILITIES	1,223,710
TOTAL LIABILITIES	2,078,678
NET ASSETS	
Without Donor Restrictions	1,199,636
With Donor Restrictions	720,452
TOTAL NET ASSETS	1,920,087
TOTAL LIABILITIES AND NET ASSETS	\$ 3,998,765

See accompanying notes to financial statements.

AZLEWAY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Federal Grants	\$ -	\$ 994,920	\$ 994,920
State and Local Grants	-	4,758,811	4,758,811
Donations	225,107	-	225,107
Interest Income	144	-	144
Rental and Royalty Income	56,183	-	56,183
Other Income	154,228	42,868	197,096
Net Assets release from Restrictions	5,753,731	(5,753,731)	-
Total Revenues	<u>6,189,393</u>	<u>42,868</u>	<u>6,232,261</u>
Expenses			
Program Services	6,326,050	-	6,326,050
Management and General	272,734	-	272,734
Total Expenses	<u>6,598,784</u>	<u>-</u>	<u>6,598,784</u>
CHANGE IN NET ASSETS	<u>(409,391)</u>	<u>42,868</u>	<u>(366,524)</u>
NET ASSETS, beginning of year	<u>1,609,027</u>	<u>677,584</u>	<u>2,286,611</u>
NET ASSETS, end of year	<u>\$ 1,199,636</u>	<u>\$ 720,452</u>	<u>\$ 1,920,087</u>

See accompanying notes to financial statements.

AZLEWAY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2023

	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	\$ 390,519	\$ 1,292,816	\$ 883,239	\$ 61,991	\$ 2,628,565	\$ -	\$ -	\$ -	\$ 2,628,565
Employee Benefits	83,254	-	90,143	10,093	183,490	5,886	-	5,886	189,376
Payroll Taxes	29,640	94,102	64,135	4,459	192,336	-	-	-	192,336
Total Personnel and Related Benefits	503,412	1,386,918	1,037,517	76,543	3,004,390	5,886	-	5,886	3,010,276
Food Purchases	14,485	14,835	3,777	141	33,238	287	-	287	33,525
Foster Parent Payments	-	2,097,513	-	-	2,097,513	-	-	-	2,097,513
Insurance	54,806	87,255	55,369	3,181	200,611	20,076	-	20,076	220,687
Supplies	17,961	59,604	33,302	1,472	112,339	-	20,312	20,312	132,651
Travel	1,816	91,695	259	1,107	94,877	1,217	-	1,217	96,094
Occupancy	2,106	211,160	5,726	-	218,992	-	-	-	218,992
Repairs and Maintenance	34,999	40,444	27,114	-	102,557	352	-	352	102,909
Professional Fees	7,714	25,845	17,113	1,228	51,900	(99)	-	(99)	51,801
Dues and Subscriptions	624	10,274	3,352	17	14,267	217	-	217	14,484
Postage and Shipping	1,191	4,702	293	171	6,357	-	-	-	6,357
Conference and Meetings	-	270	-	-	270	-	-	-	270
Training	1,149	9,151	147	59	10,506	-	-	-	10,506
Utilities	62,291	89,410	70,045	1,410	223,156	1,763	-	1,763	224,919
Advertising	-	4,257	-	40	4,297	-	-	-	4,297
Auto Expense	35,307	17,780	17,895	75	71,057	-	-	-	71,057
Interest Expense	-	-	-	-	-	42,630	-	42,630	42,630
Bank Charges	462	362	266	30	1,120	9,055	-	9,055	10,175
Miscellaneous	24,680	30,876	22,350	697	78,603	46,822	-	46,822	125,425
Total Expenses Before Depreciation	763,003	4,182,351	1,294,525	86,171	6,326,050	128,206	20,312	148,518	6,474,568
Depreciation, Amortization and Depletion	-	-	-	-	-	124,216	-	124,216	124,216
Total Expenses	\$ 763,003	\$ 4,182,351	\$ 1,294,525	\$ 86,171	\$ 6,326,050	\$ 252,422	\$ 20,312	\$ 272,734	\$ 6,598,784

See accompanying notes to financial statements.

AZLEWAY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (366,524)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation, Amortization and Depletion	124,216
(Increase) decrease in grants receivable	31,195
(Increase) decrease in other receivable	(473)
(Increase) decrease in Prepays	(17,735)
Increase (decrease) in Accounts Payable	41,710
Increase (decrease) in Payroll Liabilities	(2,556)
Total Adjustments	176,357
Net cash provided (used) by Operating Activities	(190,167)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment	(38,389)
Purchase of Fixed Assets	(15,855)
Net cash provided (used) by Investing Activities	(54,244)

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of long-term debt	(123,498)
Net cash provided (used) by Financing Activities	(123,498)

NET INCREASE (DECREASE) IN CASH	(367,908)
CASH AT BEGINNING OF YEAR	624,570
CASH AT END OF YEAR	\$ 256,662

Supplemental Disclosures

Cash Paid During the Year for:

Interest	\$ 42,630
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See accompanying notes to financial statements.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2023

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 the 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.

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

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2023

A. Organization: (Continued)

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 HHSC 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 and Humble 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 and Humble 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.

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.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2023

B. Summary of Significant Accounting Policies: (Continued)

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.

LEASES

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; ASU 2019-01, *Leases (Topic 842): Codification Improvements*; ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (topic 815), and Leases (topic 842): Effective Dates*; ASU 2020-02, *Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*; and ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. The most significant change in the new leasing guidance is the requirement to recognize right-to-use (ROU) assets and lease liabilities for operating leases on the statement of financial position.

Azleway, Inc. elected to adopt these ASUs using the modified retrospective approach required by the standards and implementing the standards using the effective date method, which established September 1, 2022 as both the effective date and date of initial application. Azleway, Inc. elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed Azleway, Inc. to carry forward the historical lease classification.

In addition, Azleway, Inc. made the following elections: to use hindsight in determining the lease term for existing leases; to apply the short-term lease exception to all leases with a term of one year or less; and to use a risk-free discount rate for all operating leases, determined using a period comparable with that of the lease term.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2023

B. Summary of Significant Accounting Policies: (Continued)

The adoption of the ASUs had a material impact on Azleway, Inc.'s statement of financial position and on the statement of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. The accounting for finance leases remained substantially unchanged. ROU assets represent Azleway, Inc.'s right to use an underlying asset for the lease term, and lease liabilities represent Azleway, Inc.'s obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Operating lease ROU assets also include any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

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.

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, 2023

B. Summary of Significant Accounting Policies: (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.

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.

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.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2023

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.

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, 2023, amounted to \$123,755 and \$461, 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, 2023 amounted to \$3,641.

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:

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2023

C. Liquidity and Availability of Financial Assets: (Continued)

Financial assets at year-end		
Cash	\$	256,662
Investments		738,241
Accounts Receivable		514,023
Total Financial assets at year-end	\$	1,508,926
Less those unavailable for general expenditures within one year, due to:		
Donor-restricted imposed restrictions as to use:		(720,452)
Financial assets available to meet cash needs for general expenditure within one year	\$	788,474

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 February 2026.

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

<u>Twelve months ending August 31,</u>	<u>Amount</u>
2024	\$ 195,440
2025	169,628
2026	54,928
Total operating lease payments	\$ 419,996
Less: Imputed Interest	(30,298)
Total operating lease liabilities	<u>389,698</u>

Operating lease expense amounted to \$218,993 for the twelve months ended August 31, 2023.

Right-of-use assets under operating leases were as follows:

Operating Lease Right-of-Use Assets - Beginning Balance	\$ 552,206
Less current year amortization	(162,508)
Operating Lease Right-of-Use Assets - Ending Balance	<u>\$ 389,698</u>

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2023

E. Notes Payable:

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

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, 2023 is:

	\$ 1,147,368
Total notes payable	1,147,368
Less: Current portion notes payable	(128,015)
Notes payable net of current portion	\$ 1,019,353

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

Year Ending August 31,	Amount
2024	\$ 128,015
2025	132,568
2026	137,283
2027	142,166
2028	147,223
Thereafter	460,113
Total	\$ 1,147,368

F. Investments:

Investment balances within the fair value hierarchy at August 31, 2023 are as follows:

Fair Value Measurements at August 31, 2023

	Level 1	Totals
Fixed Income	\$ 285,906	\$ 285,906
Equities	452,335	452,335
Total Investments at Fair Value:	\$ 738,241	\$ 738,241

Net realized/unrealized gains and investment account fees for the year totaled \$5,397 and \$19,073 respectively.

AZLEWAY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2023

G. Net Assets with Donor Restrictions:

Net Assets with donor restrictions at August 31, 2023, are available for the following periods:

Periods after August 31, 2023:	
John and Mary M. Tracy Endowment	\$ 720,452
Total restricted funds	\$ 720,452

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	\$ 963,420
Texas Department of Family & Protective Services	3,332,816
Other State and Local Grants	1,457,495
Total restrictions released	\$ 5,753,731

H. Other Assets:

Other assets consisted of the following at August 31, 2023:

Cash value of officer's life insurance policy	\$ 29,844
Royalty interest	38,373
Accumulated Depletion	(36,052)
Total	\$ 32,165

The insurance policy carried on the life of the former executive director has a face value of \$29,844 at August 31, 2023. 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 \$5,183 for the year ended August 31, 2023.

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 January 11, 2024, the date which the financial statements were available to be issued.

**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, 2023, 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 11, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Azleway's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Azleway's internal control. Accordingly, we do not express an opinion on the effectiveness of Azleway'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Azleway'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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Houston, TX

January 11, 2024

**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

Opinion on Each Major Federal Program

We have audited Azleway, Inc.’s (a nonprofit organization) compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Azleway, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Azleway, Inc.’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Azleway, Inc.’s federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Azleway, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Azleway, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including examining, on a test basis, evidence regarding Azleway, Inc.'s compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of Azleway, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Azleway, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.


Report on 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 a 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.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Houston, TX

January 11, 2024

AZLEWAY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2023

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 programs.
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. The auditor did not disclose any audit findings which are required to be reported in accordance with 2 CFR section 200.516(a).
7. Major program:

U.S. Department of Health and Human Services	ALN Number:
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 does not qualify as a low-risk auditee.

<u>Current Year Findings</u>	<u>Questioned Costs</u>
No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a).	<u>\$ -0-</u>

AZLEWAY, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2023

No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a) for the period ended August 31, 2022.

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AZLEWAY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2023

Federal Grantor/ Pass - Through Grantor/ Program Title	Assistance Listing Number	Pass - Through Entity Identifying Number	Federal Expenditures
FEDERAL ASSISTANCE:			
U.S. Department of Health & Human Services			
Passed - Through Texas Health and Human Services Commission			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	HHS000663700028	963,420
Passed - Through Texas Department of Family & Protective Services			
IVB Pt 2 - Family Preservation	93.556	HHS000790000092	<u>31,500</u>
Total U.S. Department of Health & Human Services			<u>994,920</u>
Total Expenditures of Federal Awards			<u><u>\$ 994,920</u></u>

AZLEWAY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2023

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards (“the Schedule”) includes federal award activity of Azleway Inc. under programs of the federal government for the year ended August 31, 2023. 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 the organization.

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

The Organization did not provide federal awards to subrecipients.