

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2016

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A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
057-816

(Federal Employer Identification Number: 75-2742162)

CERTIFICATE OF BOARD

August 31, 2016

We, the undersigned, certify that the attached Annual Financial and Compliance Report of A.W. Brown Fellowship Leadership Academy was reviewed and ___approved ___ disapproved for the year ended August 31, 2016, at a meeting of the governing body of said charter school on the _____ day of _____, 20____.

Signature of Board Secretary

Signature of Board President

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
A.W. Brown Fellowship Leadership Academy
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of A.W. Brown Fellowship Leadership Academy (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of A.W. Brown Fellowship Leadership Academy as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

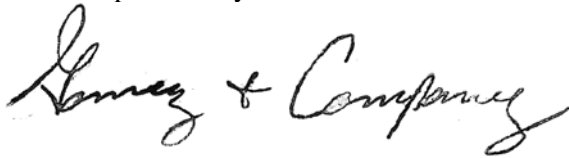
Other Matters

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 (CFR) 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 December 12, 2016, on our consideration of A.W. Brown Fellowship Leadership Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering A.W. Brown Fellowship Leadership Academy's internal control over financial reporting and compliance.

A handwritten signature in cursive script, likely representing the auditing firm, is written in black ink. The signature is stylized and appears to read "Loney & Company".

Houston, TX
December 12, 2016

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2016

ASSETS

	<u>2016</u>
Current Assets:	
Cash and cash equivalents	\$ 3,526,935
Investments	4,427,634
Amounts due from state	1,936,654
Other receivables	131,383
Prepaid expenses	<u>190,872</u>
Total Current Assets:	<u>10,213,478</u>
Property & Equipment:	
Land	4,750,888
Buildings and improvements	23,193,522
Furniture and equipment	<u>3,611,593</u>
	31,556,003
Less: Accumulated depreciation	<u>(7,911,504)</u>
	<u>23,644,499</u>
Other Assets:	
Restricted cash - bond trustee	6,500
Debt issuance costs (net of amortization)	<u>907,858</u>
Total Other Assets:	<u>914,358</u>
Total Assets	<u>\$ 34,772,335</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$ 307,171
Interest payable	42,722
Accrued payroll liabilities	597,163
Accrued compensated absences	196,033
Current portion of long-term debt	<u>1,452,098</u>
Total Current Liabilities	<u>2,595,187</u>
Long-term debt (net of premium and current portion)	<u>24,602,650</u>
Total Liabilities	<u>27,197,837</u>
Net Assets:	
Unrestricted	925,791
Temporarily Restricted	<u>6,648,707</u>
Total Net Assets	<u>7,574,498</u>
Total Liabilities and Net Assets	<u>\$ 34,772,335</u>

See accompanying notes to financial statements.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 432,569	\$ 72,413	\$ 504,982
5750 Revenues from Cocurricular Activities	<u>68,141</u>	<u>(54,454)</u>	<u>13,687</u>
Total Local Support	<u>500,710</u>	<u>17,959</u>	<u>518,669</u>
State Program Revenues			
5810 Foundation School Program Act Revenues		16,499,614	16,499,614
5820 State Program Revenues Distributed by			
Texas Education Agency	<u> </u>	<u>44,299</u>	<u>44,299</u>
Total State Program Revenues	<u> </u>	<u>16,543,913</u>	<u>16,543,913</u>
Federal Program Revenues:			
5910 Federal Revenues Distributed by			
Education Service Center		522,033	522,033
5920 Federal Revenues Distributed by			
Texas Education Agency		1,357,041	1,357,041
5940 Federal Revenues Distributed Directly			
From the Federal Government	<u> </u>	<u>194,019</u>	<u>194,019</u>
Total Federal Program Revenues	<u> </u>	<u>2,073,093</u>	<u>2,073,093</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>18,268,500</u>	<u>(18,268,500)</u>	
Total Revenues	<u>18,769,210</u>	<u>366,465</u>	<u>19,135,675</u>
EXPENSES			
11 Instruction	10,312,741		10,312,741
13 Curriculum Development and Instructional			
Staff Development	111,513		111,513
21 Instructional Leadership	3,064		3,064
23 School Leadership	891,346		891,346
31 Guidance, Counseling, and Evaluation	211,608		211,608
33 Health Services	60,235		60,235
34 Student (Pupil) Transportation	51,320		51,320
35 Food Services	1,464,569		1,464,569
36 Cocurricular/Extracurricular Activities	273,674		273,674
41 General Administration	1,217,734		1,217,734
51 Plant Maintenance and Operations	1,738,557		1,738,557
52 Security and Monitoring Services	209,351		209,351
53 Data Processing Services	367,678		367,678
71 Debt Services	1,641,759		1,641,759
81 Fund Raising	<u>1,897</u>		<u>1,897</u>
Total Expenses	<u>18,557,046</u>	<u> </u>	<u>18,557,046</u>

See accompanying notes to financial statements.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING EXPENSES (CONTINUED)			
Change in Net Assets from Operations	\$ 212,164	\$ 366,465	\$ 578,629
Net Operating Assets, Beginning of Year	<u>713,627</u>	<u>6,512,368</u>	<u>7,225,995</u>
Net Operating Assets, End of Year	<u>925,791</u>	<u>6,878,833</u>	<u>7,804,624</u>
NON-OPERATING REVENUES (EXPENSES)			
Gain (Loss) on Retirement of Bonds	<u> </u>	<u>(230,126)</u>	<u>(230,126)</u>
Total Change in Net Assets	<u>212,164</u>	<u>136,339</u>	<u>348,503</u>
Net Assets, Beginning of Year	<u>713,627</u>	<u>6,512,368</u>	<u>7,225,995</u>
Net Assets, End of Year	<u>925,791</u>	<u>6,648,707</u>	<u>7,574,498</u>

See accompanying notes to financial statements.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2016

Cash Flows from Operating Activities	
Increase (Decrease) in Net Assets	\$ 348,503
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities	
Depreciation and Amortization	1,083,090
Unrealized (Gain) Loss on Investments	54,453
(Increase) Decrease in Grants Receivables	(191,874)
(Increase) Decrease in Other Receivables	(84,665)
(Increase) Decrease in Prepaid Expenses	(40,741)
Increase (Decrease) in Accounts Payable	75,553
Increase (Decrease) in Interest Payable	(21,964)
Increase (Decrease) in Accrued Payroll Liabilities	86,383
Increase (Decrease) in Compensated Absences	<u>3,761</u>
Total Adjustments	<u>963,996</u>
Net Cash Provided (Used) by Operating Activities	<u>1,312,499</u>
Cash Flows from Investing Activities	
Purchase of Securities	(132,875)
Purchase of Fixed Assets	<u>(784,141)</u>
Net Cash Provided (Used) by Investing Activities	<u>(917,016)</u>
Cash Flows from Financing Activities	
Proceeds from Debt	22,009,180
Net Proceeds from Restricted Cash - Bond Trustee	2,129,202
Repayment of Debt	(23,548,127)
Debt Issuance Costs Paid	(759,614)
Loss on Extinguishment of Debt	<u>230,126</u>
Net Cash Provided (Used) by Financing Activities	<u>60,767</u>
NET INCREASE (DECREASE) IN CASH	456,250
CASH AT BEGINNING OF YEAR	<u>3,070,685</u>
CASH AT END OF YEAR	<u>\$ 3,526,935</u>
Supplemental Disclosures of Cash Flow Information	
<u>Cash Paid During the Year for:</u>	
Interest	<u>\$ 1,536,873</u>

See accompanying notes to financial statements.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

A. Organization:

A.W. Brown Fellowship Leadership Academy is an open enrollment charter school, which opened in August 1999. The Contract for Charter was granted by the State Board of Education of the State of Texas pursuant to Chapter 12 of the Texas Education Code, which expired July 31, 2013. The Charter School's charter has been renewed through July 31, 2026.

The Charter School's programs include classroom instruction with funding provided by Public Charter School's Foundation Formula, School Breakfast/Lunch Programs, Title I Part A, Title II, Title III, and IDEA-B program.

The Charter School is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Accordingly, the financial statements do not include a provision for income taxes.

B. Summary of Significant Accounting Policies:

The general purpose financial statements of A. W. Brown Fellowship Leadership Academy (the "Charter School") were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The Charter Holder's sole purpose is to operate the A. W. Brown Fellowship Leadership Academy.

Reporting Entity

The Charter School is a not-for-profit organization incorporated in the State of Texas in July 1999, as A. W. Brown Fellowship Educational Learning Center, which has as its sole operations the A.W. Brown Fellowship Charter School, and then in 2012 it changed its name to A. W. Brown Fellowship Leadership Academy. A Board of Directors comprised of seven members governs the Charter School. The Board of Directors is selected pursuant to the bylaws of the Charter School and has the authority to make decisions, appoint the chief executive officer of the Charter School, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Charter School. Since the Charter School received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Basis of Presentation

The accompanying general purpose financial statements represent the only activity of the Charter School and have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, management made certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

B. Summary of Significant Accounting Policies: (continued)

Unrestricted - net assets that are not subject to donor imposed stipulations.

Temporarily restricted - net assets subject to donor imposed stipulations or otherwise restricted that may or will be met, either by actions of the Charter School, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted - net assets required to be maintained in perpetuity with only the income to be used for the charter school's activities due to donor-imposed restrictions.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and investment instruments with an original maturity of three months or less are considered to be cash equivalents.

Receivables

Accounts receivable are presented net of estimated allowances for doubtful amounts. The Charter School's policy is to write-off receivables as they are deemed uncollectible or as notified by grantor agencies. All federal and state receivable amounts due at August 31, 2016 are considered fully collectible. Therefore, management has not recorded an allowance for the federal and state receivables that pass through the Texas Education Agency (TEA).

Capital Assets and Other Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general purpose and specific purpose financial statements. Capital assets are defined by the Charter School as assets with an individual cost of more than \$500. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to forty years, using the straight line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost. The cost of issuance of bonds is amortized over the life of each bond.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

B. Summary of Significant Accounting Policies: (continued)

Compensated Absences

The Charter School's full-time instructional employees accumulate and vest vacation leave at varying rates depending on longevity. Managerial and part-time staff do not accumulate or vest vacation leave. Accumulated vacation leave cannot exceed 160 hours.

Estimates

Management has elected to use generally accepted accounting principles and in doing so is required to use estimates in certain account balances and notes to the financial statements. 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.

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.

C. Cash Equivalents and Restricted Cash

Unrestricted cash at August 31, 2016 is comprised of \$3,776,897 deposited with financial institutions. The Federal Depository Insurance Corporation (FDIC) insures these bank deposits to certain limits. \$1,613,921 of unrestricted cash deposits were fully insured by the FDIC at August 31, 2016 and \$2,162,976 was unsecured.

Restricted cash balances of \$6,500 are related to restricted bond debt service accounts that are held in the required separate bank accounts.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

D. Long-Term Debt

Series 2016A- \$18,580,000 Tax-Exempt Education Revenue Bonds With Arlington Higher Education Finance Corporation secured by Permanent School Fund (PSF). Semi-annual coupon rates between 2%-4% and final maturity in 2042.	\$ 18,580,000
Series 2016B - \$1,615,000 Taxable Education Revenue Bonds with Arlington Higher Education Finance Corporation. Secured by PSF. 2.0% coupon rate and final maturity in 2022.	1,615,000
Insurance note payable due in August 2017.	167,766
Series 2011Q Taxable Education Construction Bonds – Direct Pay at 4.5% plus a variable component and the tax credit reducing the rate to approximately 1.73%. The 2011Q bonds mature in 2026 and are secured by a Deed of Trust and priority lien on unrestricted assets.	<u>4,045,568</u>
Total debt	\$ 24,408,334
Plus 2016A bond premium	1,625,705
Plus 2016B bond premium	20,709
Less current portion of debt	<u>(1,452,098)</u>
	<u><u>\$ 24,602,650</u></u>

The Charter School closed on August 11, 2016, \$20,195,000 of Arlington Higher Education Finance Corporation Education Revenue Bonds Series 2016A and Taxable Education Revenue Bonds, Series 2016B bonds. The bonds had a net premium of \$1,646,414. In addition, \$2,135,917 in 2012 Debt Service Reserve Fund proceeds were released for use. Debt and reserve fund proceeds were employed as follows: Deposit to Escrow Fund for exercise of purchase option on 2012A bonds \$23,383,203; Issuance Cost and Underwriter's Discount and miscellaneous \$594,128. The stated interest rates for Series 2016A range from 2% to 4% with an effective yield of 4.85% and 5.15% for respective maturities of the bonds. The stated interest rates for Series 2016B is 6.625% with an effective yield between 0.720% and 3.11%. Principal and interest is paid semi-annually on February 15th and August 15th for both bond issues. A.W. Brown has applied for and has been granted conditional approval for participation in the Permanent School Fund Guarantee Program by the Texas Education Agency ("TEA"), guaranteeing payment of the bonds by the corpus of the state's Permanent School Fund.

Bond Issue Costs and Loss for Early Debt Extinguishment

A.W. Brown recorded a loss related to the extinguishment of 2012 bonds in the amount of \$230,126. Issuance costs for the 2011Q and 2016 bond issues equaled \$86,540 and \$821,318, respectively. Net bond premiums related to the 2016A and 2016B bond issues totaled \$1,623,100 and \$12,609, respectively. The costs are being amortized over the respective lives of each outstanding bond series using the straight-line method.

A. W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

D. Long-Term Debt: (continued)

Debt Covenants

The Series 2016 bonds have multiple debt covenants as outlined by the "Master Trust Indenture and Security Agreement" (the Agreement) between the Charter School and the Trustee. These debt covenants include, but are not limited to the following: meeting certain debt service coverage ratios and providing audited financial statements at fiscal year-end. Non-compliance with debt covenants may be considered an "Event of Default" as defined by the Agreement and may under certain circumstances make all outstanding bond debt due immediately.

Schedule of future principal and interest requirements are as follows:

Fiscal Years	Principal	Interest	Total
2017	\$ 1,452,098	\$ 900,097	\$ 2,352,195
2018	1,159,906	856,001	2,015,907
2019	1,367,741	810,459	2,178,200
2020	1,423,036	756,437	2,179,473
2021	1,471,009	699,987	2,170,996
Thereafter	17,534,544	6,211,524	23,746,068
	24,408,334	<u>\$ 10,234,505</u>	<u>\$ 34,642,839</u>
Plus premium on bonds	1,646,414		
Total Debt plus Premium	<u>\$ 26,054,748</u>		

E. Revolving Line of Credit:

The Charter School has a \$500,000 revolving line of credit, with a zero balance at 8/31/16. Interest related to bank advances on the credit line is payable on a monthly basis and is computed as the lender's variable prime rate plus 1%. An investment account held with the lending institution has been pledged as collateral against the line of credit. The full amount of advances obtained under the line of credit are due on demand.

F. Health Care Coverage

During the year ended August 31, 2016, employees of the Charter School were covered by a Health Insurance Plan (the Plan). The Charter School contributed \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

G. Pension Plan Obligations

Plan Description

The Charter School contributes to the Teacher Retirement System of Texas (“TRS”), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the Charter School, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas.

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district (“ISD”) may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The latest TRS Comprehensive Annual Financial Report available dated August 31, 2016 provided the following information (ABO refers to the accumulated benefit obligation):

Pension Fund	Total Plan Assets 2016	ABO 2016	Percent Funded
TRS	\$ 152,925,647,000	\$ 171,797,150,000	78.00%

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. State law provides for a member contribution rate of 7.2% for the 2016 fiscal period. The state’s contribution rate as a non-employer contributing entity was 6.8% in 2016. The Charter School’s employees’ contributions to the system for the year ended August 31, 2016 were \$711,000, equal to the required contributions for the year.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

G. Pension Plan Obligations (continued)

Other contributions made from federal and private grants and from the Charter School for salaries above the statutory minimum were contributed at a rate of 6.8% totaling \$68,185 for the year ended August 31, 2016. The Charter School's contributions into this plan do not represent more than 5% of the total contributions to the plan and the charter school was not assessed a surcharge.

H. Temporarily Restricted Net Assets

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

<u>Periods after August 31, 2016</u>	
State restricted funds	\$ 6,648,707
Total restricted funds	<u>\$ 6,648,707</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>Texas Education Agency</u>	
State Funds	\$ 16,195,407
Federal Funds	1,879,074
Q-series Bond	<u>194,019</u>
Total Restrictions Released	<u>\$ 18,268,500</u>

The Charter School has no permanently restricted net assets at August 31, 2016.

I. Related Parties

The President of the Board of Directors also performs legal services for the Charter School. The Board President was not engaged for legal services by the Charter School in the current fiscal year.

A founding member and former President of the Board of Directors has been hired as a consultant to the Board to assist in the transition of administrative responsibilities to the new Superintendent and Chief Executive Officer. The agreement is terminable at any time and is enforceable in the 2016-17 and 2017-18 academic years. Compensation under this agreement is set at \$150,000 in base salary per academic year, and \$25,000 in retirement contributions.

A second founding member and former Superintendent of the school district has also been hired as a consultant to the school district. In this role, the former Superintendent is to assist in the transition of administrative responsibilities to the new Superintendent and Chief Executive Officer. The agreement is terminable at any time and is enforceable in the 2016-17, 2017-18, and 2018-19 academic years. Compensation under this agreement is set at \$150,000 in base salary per academic year, and \$25,000 in retirement contributions.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

J. Donated Goods and Services

Donated goods or services are not recorded at fair value on the date of contribution. The Board has implemented the securing of a separate entity to raise funds for the Charter School and student scholarships. The Charter School had no significant goods donations, nor donated skilled services for fiscal year 2016.

K. Commitments and Contingencies

The Charter School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

The Charter School has operating leases for equipment that require monthly installments and have the following scheduled payments in 2017 through 2019, respectively: \$76,670; \$54,279; and ending in 2019 with \$23,400. Operating lease expense amounted to \$207,951 for the year ended August 31, 2016.

L. Concentrations

The Charter School receives substantially all of its funding from Texas Foundation Funds through the Texas Education Agency (TEA). Its classes are dependent primarily on students from a specific geographical area. The students have choices of charter, private and public schools.

M. Investments

Investment balances within the fair value hierarchy at August 31, 2016 are as follows:

	Fair Value Measurements at August 31, 2016			Totals
	Quoted Price In Active Markets Identical Assets Level 1	Significant Observable Other Inputs Level 2	Significant Unobservable Inputs Level 3	
Cash/Money Market	\$ 2,072,564	\$	\$	\$ 2,072,564
Fixed Income	1,093,947			1,093,947
Equities	60,983			60,983
Mutual Funds	1,200,140			1,200,140
Exchange-Traded products	-			-
Total Investments at Fair Value:	<u>\$ 4,427,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,427,634</u>

Net unrealized losses and investment account fees for the year totaled \$54,453 and \$16,887, respectively.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

N. Subsequent Events

The Charter School's management has evaluated subsequent events through December 12, 2016, which is the day these statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To The Board of Directors of
A.W. Brown Fellowship Leadership Academy
Dallas, Texas

We have audited the financial statements of A.W. Brown Fellowship Leadership Academy as of and for the year ended August 31, 2016, and our report thereon dated December 12, 2016, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules for Individual Charter School are presented on pages 17 to 20 for the purposes of additional analysis and are 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.



Houston, TX
December 12, 2016

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2016

Expenses

6100 Payroll Costs	\$ 11,320,358
6200 Professional and Contracted Services	1,892,126
6300 Supplies and Materials	1,925,134
6400 Other Operating Costs	1,775,575
6500 Debt Service	<u>1,643,853</u>
 Total Expenses	 <u>\$ 18,557,046</u>

See accompanying notes to financial statements.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2016

	Ownership Interest		
	Local	State	Federal
1110 Cash and Temporary Investments	\$ 130,596	\$ 3,396,339	\$
1510 Land Purchase and Improvements		4,750,888	
1520 Buildings and Improvements	39,628	22,405,227	748,667
1539 Furniture and Equipment	<u>89,667</u>	<u>2,612,435</u>	<u>909,491</u>
Total Property and Equipment	<u>\$ 259,891</u>	<u>\$33,164,889</u>	<u>\$ 1,658,158</u>

See accompanying notes to financial statements.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 119,280	\$ 119,280	\$ 504,982	\$ 385,702
5750 Revenues from Cocurricular Activities			13,687	13,687
Total Local Support	119,280	119,280	518,669	399,389
State Program Revenues:				
5810 Foundation School Program Act Revenues	16,455,268	16,455,268	16,499,614	44,346
5820 State Program Revenues Distributed by				
Texas Education Agency			44,299	44,299
Total State Program Revenues	16,455,268	16,455,268	16,543,913	88,645
Federal Program Revenues:				
5910 Federal Revenues Distributed by				
Education Service Center			522,033	522,033
5920 Federal Revenues Distributed by				
Texas Education Agency	2,220,312	2,220,312	1,357,041	(863,271)
5940 Federal Revenues Distributed Directly				
From the Federal Government			194,019	194,019
Total Federal Program Revenues	2,220,312	2,220,312	2,073,093	(147,219)
Total Revenues	18,794,860	18,794,860	19,135,675	340,815
EXPENSES				
11 Instruction	10,100,055	10,100,055	10,312,741	(212,686)
13 Curriculum Development and Instructional				
Staff Development	85,284	112,000	111,513	487
21 Instructional Leadership		5,000	3,064	1,936
23 School Leadership	922,172	922,172	891,346	30,826
31 Guidance, Counseling, and Evaluation Services	114,482	114,482	211,608	(97,126)
33 Health Services	77,000	60,000	60,235	(235)
34 Student (Pupil) Transportation	58,800	58,800	51,320	7,480
35 Food Service	1,419,438	1,419,438	1,464,569	(45,131)
36 Cocurricular/Extracurricular Activities	313,053	290,000	273,674	16,328
41 General Administration	1,419,238	1,300,000	1,217,734	82,266
51 Plant Maintenance and Operations	1,552,754	1,671,754	1,738,557	(66,803)
52 Security and Monitoring Services	243,000	243,000	209,351	33,649
53 Data Processing Services	544,567	394,567	367,678	26,889
71 Debt Services	1,676,078	1,676,078	1,641,759	34,319
81 Fund Raising	10,000	10,000	1,897	8,103
Total Expenses	18,535,921	18,377,346	18,557,046	(179,698)
Change in Net Assets from Operations	258,939	417,514	578,629	161,117
Net Operating Assets, Beginning of Year	7,225,995	7,225,995	7,225,995	
Net Operating Assets, End of Year	\$ 7,484,934	\$7,643,509	\$ 7,804,624	\$ 161,117

See accompanying notes to financial statements.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

BUDGETARY VARIANCE EXPLANATION

FOR THE YEAR ENDED AUGUST 31, 2016

MATERIAL BUDGET VARIANCE EXPENDITURES

(1) The following is an explanation of the 10% variances from original budget to final budget reported on the Budgetary Comparison Schedule for the year ending August 31, 2016.

Function 13 – Increased payroll cost.

Function 21 – Changes in job descriptions required a change.

Function 33 – Reduction of hours worked.

Function 53 – Three positions went unfilled in this department.

MATERIAL BUDGET VARIANCE REVENUE

(1) The following is an explanation of the 10% variances from final budget to actual revenue reported on the Budgetary Comparison Schedule for the year ending August 31, 2016.

Object 5740 – Increased earnings from investments and significant increase in E-rate funding.

Object 5750 – Increased collections for extracurricular activities.

Object 5820 – Continuation of Pre-K funding that was not expected.

Object 5910 – Funds were budgeted in object code 5920.

Object 5920 – Lower National Child Nutrition revenue due to fewer meals served.

Object 5940 – Funds were budgeted in object code 5920.

MATERIAL BUDGET VARIANCE EXPENDITURES

(2) The following is an explanation of the 10% variances from final budget to actual expenses reported on the Budgetary Comparison Schedule for the year ending August 31, 2016.

Function 21 – Overestimated the amount of personnel time for this function.

Function 31 – Summer program for Pre-K & K students to prepare them for the next level.

Function 34 – Lower fuel costs.

Function 52 – Fewer security personnel.

Function 81 – Fundraising program was not implemented.

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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
A.W. Brown Fellowship Leadership Academy
Dallas, 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 A.W. Brown Fellowship Leadership Academy (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered A.W. Brown Fellowship Leadership Academy'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 A.W. Brown Fellowship Leadership Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of A.W. Brown Fellowship Leadership Academy'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 A.W. Brown Fellowship Leadership Academy'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 "Ramirez & Company". The signature is written in a cursive, flowing style.

Houston, TX
December 12, 2016

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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
A.W. Brown Fellowship Leadership Academy
Dallas, Texas

Report on Compliance for Each Major Federal Program

We have audited A.W. Brown Fellowship Leadership Academy'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 A.W. Brown Fellowship Leadership Academy's major federal programs for the year ended August 31, 2016. A.W. Brown Fellowship Leadership Academy'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 A.W. Brown Fellowship Leadership Academy'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 A.W. Brown Fellowship Leadership Academy'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 A.W. Brown Fellowship Leadership Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, A.W. Brown Fellowship Leadership Academy 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, 2016.

Report on Internal Control over Compliance

Management of A.W. Brown Fellowship Leadership Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above.

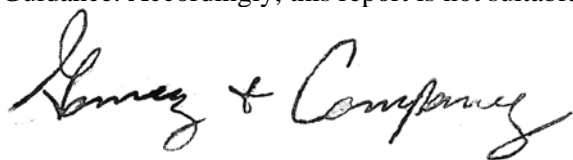
In planning and performing our audit of compliance, we considered A.W. Brown Fellowship Leadership Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate 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 A.W. Brown Fellowship Leadership Academy'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.

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

Houston, TX
December 12, 2016

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2016

Summary of Audit 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 award programs expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any audit findings which are required to be reported in accordance with 2 CFR section 200.516(a).
7. Major programs:

U.S. Department of Education	
Passed – Through Texas Education Agency	
Title I, Part A	CFDA Number 84.010A
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. A.W. Brown Fellowship Leadership Academy qualifies as a low-risk auditee.

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

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2016

No findings were noted as per .300 (f) of OMB A-133 for the year ended August 31, 2015. \$-0-

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed - Through Texas Education Agency:			
Idea - B Formula	84.027A	166600010578166600	\$ 305,186
Idea - B Preschool	84.173A	166610010578166610	448
 <u>U.S. Department of Education</u>			
Passed - Through Education Service Center:			
Title I, Part A, School Improvement	84.010A	16610101057950	449,458
Title II, Part A, Teacher/Principal Training & Recruiting	84.367A	16694501057950	72,575
			827,667
 Total U.S. Department of Education			
 <u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
School Breakfast	10.553	71401501	12,631
School Breakfast	10.553	71401601	197,219
National School Lunch	10.555	71301501	86,926
National School Lunch	10.555	71301601	670,973
 Passed - Through Texas Department of Agriculture			
USDA Commodity Food Distribution	10.555		83,658
			1,051,407
 Total U.S. Department of Agriculture			
			\$ 1,879,074
 Total Expenditures of Federal Awards			

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes federal award activity of A.W. Brown Fellowship Leadership Academy under programs of the federal government for the year ended August 31, 2016. 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 A.W. Brown Fellowship Leadership Academy, it is not intended to and does not present the financial position, changes in net assets, or cash flows of A.W. Brown Fellowship Leadership Academy.

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

A.W. Brown Fellowship Leadership Academy has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – OTHER SOURCES OF FEDERAL REVENUES

Other sources of federal revenues are \$194,019 in tax credits for qualifying bonds, which are not includible in the Schedule of Expenditures of Federal Awards (SEFA).

Reconciliation of Federal Revenues and (SEFA):

Total expenditure of federal awards per the SEFA	\$ 1,879,074
Q-Series Bond Subsidy Revenue	<u>194,019</u>
Total federal revenues per the Statement of Activities	<u>\$ 2,073,093</u>