

A. W. BROWN LEADERSHIP ACADEMY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2022

TABLE OF CONTENTS

	Page No.
CERTIFICATE OF BOARD	
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 Supplementary Information	18
SUPPLEMENTAL FINANCIAL STATEMENTS	
- Statement of Activities for Individual Charter School	19
- Schedule of Expenses for Individual Charter School	20
- Schedule of Capital Assets for Individual Charter School	21
- Budgetary Comparison Schedule for Individual Charter School	22
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>	23
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	25
Schedule of Findings and Questioned Costs	28
Schedule of Prior Year Findings	30
Schedule of Expenditures of Federal Awards	31
Notes to Schedule of Expenditures of Federal Awards	32
Management's Corrective Action Plan	33
REAL PROPERTY OWNERSHIP AND RELATED PARTY TRANSACTIONS	
- Schedule of Real Property Ownership Interest for A.W. Brown Leadership Academy	34
- Schedule of Related Party Transactions for A.W. Brown Leadership Academy	35
- Special Program Compliance Schedule	36

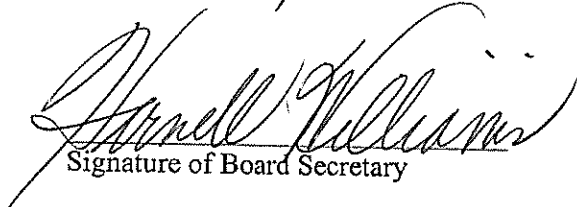
A. W. BROWN LEADERSHIP ACADEMY
057-816


(Federal Employer Identification Number: 75-2742162)

CERTIFICATE OF BOARD

August 31, 2022

We, the undersigned, certify that the attached Annual Financial and Compliance Report of A.W. Brown Leadership Academy was reviewed and approved disapproved for the year ended August 31, 2022, at a meeting of the governing body of said charter school on the 24th day of January, 2023.


Signature of Board Secretary


Signature of Board President

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of A.W. Brown Leadership Academy (“the Academy”) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2022, 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 the Academy as of August 31, 2022, 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 the Academy 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, and for 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 the Academy'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.

In performing an audit in accordance with generally accepted 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 the Academy'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 the Academy'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.

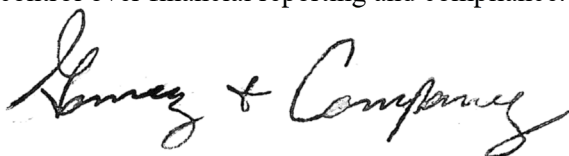
Other Matters

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 schedule of expenditures of federal awards 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 23, 2023, on our consideration of the 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 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 the Academy'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 the Academy's internal control over financial reporting and compliance.



Houston, TX
January 23, 2023

A. W. BROWN LEADERSHIP ACADEMY
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2022

ASSETS

Current Assets

Cash and Cash Equivalents	\$	2,380,002
Restricted cash		211,310
Investments		933,323
Amounts due from State		1,332,731
Deposits		10,511
Prepays		116,775

Total Current Assets		4,984,652
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Property and Equipment

Land		4,962,951
Building and Improvements		27,175,670
Furniture and Equipment		4,682,113
Vehicles		226,000
Construction in Progress		2,477,300
Operating Lease Right-of-Use Assets		844,887

		40,368,921
Less: Accumulated Depreciation		(14,161,188)
		26,207,733

TOTAL ASSETS	\$	31,192,385
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$	574,245
Interest Payable		32,613
Accrued Payroll Liabilities		1,210,688
Current Portion of Operating Lease Liabilities		300,979
Current Portion of Bonds Payable		1,085,000

Total Current Liabilities		3,203,525
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Long-term Liabilities

Operating Lease Liabilities, net of Current Portion		543,908
Note Payable net of Current Portion		2,010,000
Bonds Payable net of Premium, Issuance Costs, and Current Portion		21,550,439

Total Long-term Liabilities		24,104,347
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TOTAL LIABILITIES		27,307,872
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Net Assets

Without Donor Restrictions		956,108
With Donor Restrictions		2,928,405

TOTAL NET ASSETS		3,884,513
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TOTAL LIABILITIES AND NET ASSETS	\$	31,192,385
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See accompanying notes to financial statements.

A.W. BROWN LEADERSHIP ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Local Support:			
Other Revenues from Local Sources	\$ 2,162,551	\$ 180,657	\$ 2,343,208
Interest Income	1	-	1
Total Local Support	<u>2,162,552</u>	<u>180,657</u>	<u>2,343,209</u>
State Program Revenues	-	9,199,305	9,199,305
Total State Program Revenues	<u>-</u>	<u>9,199,305</u>	<u>9,199,305</u>
Federal Program Revenues	-	5,837,775	5,837,775
Total Federal Program Revenues	<u>-</u>	<u>5,837,775</u>	<u>5,837,775</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	15,343,606	(15,343,606)	-
Total Revenues	<u>17,506,158</u>	<u>(125,869)</u>	<u>17,380,289</u>
Expenses			
Program Services			
Instruction and Instructional-Related Services	9,130,623	-	9,130,623
Instructional and School Leadership	1,107,205	-	1,107,205
Support Services- Student (Pupil)	1,139,768	-	1,139,768
Ancillary Services	31,998	-	31,998
Total Program Services	<u>11,409,594</u>	<u>-</u>	<u>11,409,594</u>
Support Services			
Administrative Support Services	1,394,986	-	1,394,986
Support Services- Non-Student Based	3,784,281	-	3,784,281
Debt Service	894,166	-	894,166
Fundraising	23,131	-	23,131
Total Support Services	<u>6,096,564</u>	<u>-</u>	<u>6,096,564</u>
Total Expenses	<u>17,506,158</u>	<u>-</u>	<u>17,506,158</u>
Change in Net Assets	<u>-</u>	<u>(125,869)</u>	<u>(125,869)</u>
Net Assets, Beginning of Year	<u>956,108</u>	<u>3,054,274</u>	<u>4,010,382</u>
Net Assets, End of Year	<u>\$ 956,108</u>	<u>\$ 2,928,405</u>	<u>\$ 3,884,513</u>

See accompanying notes to financial statements.

A.W. BROWN LEADERSHIP ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2022

	Program Services	Supporting Services			Total
	Program Expense	General and Administrative	Fundraising	Total Supporting Services	
Expenses					
Salaries	\$ 6,808,701	\$ 1,181,832	\$ -	\$ 1,181,832	\$ 7,990,533
Payroll taxes	159,729	29,001	-	29,001	188,730
Employee benefits	699,919	84,767	-	84,767	784,686
Rental Expense	132,664	95,846	-	95,846	228,510
Maintenance and Repairs	25,977	1,016,185	-	1,016,185	1,042,162
Utilities	4,504	493,776	-	493,776	498,280
Supplies	729,859	263,142	-	263,142	993,001
Travel	4,155	23,241	-	23,241	27,396
Insurance	-	260,968	-	260,968	260,968
Professional Fees	1,669,082	1,637,584	17,821	1,655,405	3,324,487
Interest	-	798,228	-	798,228	798,228
Other	120,983	46,052	-	46,052	167,035
Amortization	-	80,686	-	80,686	80,686
Depreciation	1,054,021	62,125	5,310	67,435	1,121,456
Total Expenses	\$ 11,409,594	\$ 6,073,433	\$ 23,131	\$ 6,096,564	\$ 17,506,158

A.W. BROWN LEADERSHIP ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (Decrease) in Net Assets	\$ (125,869)
Adjustments to Reconcile Increase (Decrease) in Net	
Assets to Net Cash provided (Used) by Operating Activities	
Depreciation expense	1,121,456
Amortization expense	80,686
(Increase) Decrease in Grants Receivable	1,464,590
(Increase) Decrease in Prepaid Expenses	(101,532)
Increase (Decrease) in Accounts Payable	(1,058,459)
Increase (Decrease) in Accrued Payroll Liabilities	147,082
Increase (Decrease) in Interest Payable	(1,300)
Net Amortization of Premium and Bond Discount	(113,945)
Total Adjustments	1,538,578
Net Cash Provided (Used) by Operating Activities	1,412,709
CASH FLOWS FROM INVESTING ACTIVITIES	
Sales of Securities	317,927
Purchase of Fixed Assets	(1,215,976)
Net Cash Provided (Used) By Investing Activities	(898,049)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Loans	2,010,000
Repayment of Debt	(885,000)
Net Cash Provided (Used) By Financing Activities	1,125,000
NET INCREASE (DECREASE) IN CASH	1,639,660
CASH AT BEGINNING OF YEAR	951,652
CASH AT END OF YEAR	\$ 2,591,312
Supplemental Disclosures of Cash Flow Information	
<u>Cash Paid During the Year for:</u>	
Interest	\$ 798,228

See accompanying notes to financial statements.

A. W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

A. Organization:

A.W. Brown Leadership Academy (“the 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 Academy’s charter has been renewed through July 31, 2026.

The Academy’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, Title IV, and IDEA-B program.

The Academy 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 the Academy were prepared in conformity with accounting principles generally accepted in the United States of America. 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 Leadership Academy.

Reporting Entity

The Academy 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 Leadership Academy charter school, and then in 2012 it changed its name to A. W. Brown Fellowship Leadership Academy. The name was changed once more in 2017 to the A.W. Brown Leadership Academy. A Board of Directors comprised of six members governs the Academy. The Board of Directors is selected pursuant to the bylaws of the Academy 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 Academy. Since the Academy receives 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 have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

A. W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

B. Summary of Significant Accounting Policies: (Continued)

Classification of Net Assets

The Academy reports its financial information based on 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. Net assets of the Academy are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

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

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

Presentation of Debt Issuance Costs

The Academy presents debt issuance costs within the statement of financial position as a direct deduction from the face amount of the debt. Amortization of debt issuance costs is reported as interest expense. Debt issuance costs are recognized at historical cost as incurred. The cost of issuance of bonds is amortized over the life of each bond. The Academy nets issuance costs against long-term bonds payable amounts.

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.

A. W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

B. Summary of Significant Accounting Policies: (Continued)

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 Academy'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, 2022 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 Academy as assets with an individual cost of more than \$5000. 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. Depreciation for the year totaled \$1,059,331. 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.

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.

Income Taxes

The Academy qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the Academy's multiple functional expenditures.

A. W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

B. Summary of Significant Accounting Policies: (Continued)

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.

New Accounting Standard Affecting Lease Accounting

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.

The Academy 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, 2020 as both the effective date and date of initial application. The Academy elected the package of

A. W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

B. Summary of Significant Accounting Policies: (Continued)

New Accounting Standard Affecting Lease Accounting (Continued)

practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Academy to carry forward the historical lease classification. In addition, the Academy 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.

C. Cash Equivalents and Restricted Cash:

Unrestricted cash at August 31, 2022 is comprised of \$2,380,002 deposited with financial institutions. The Federal Depository Insurance Corporation (FDIC) insures these bank deposits up to certain limits. The full amount of unrestricted cash deposits were fully insured by the FDIC at August 31, 2022. Restricted cash balances of \$211,310 are related to restricted bond debt service accounts that are held in the required separate bank accounts.

D. Liquidity and Availability of Financial Assets:

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

Financial assets at year-end:		
Cash and cash equivalents	\$	2,380,002
Restricted cash		211,310
Investments		933,323
Grants and other receivables		1,332,731
Total financial assets		<u>4,857,366</u>
Less those unavailable for general expenditures within one year, due to cash restriction as to use:		<u>211,310</u>
Financial assets available to meet cash needs for general expenditure within one year	\$	<u>4,646,056</u>

The Academy 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 Academy. Excess cash is invested in short-term investments such as certificates of deposit that have maturity dates of less than three months.

A. W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

E. Bonds Payable:

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.	\$ 14,680,000
Series 2017A - \$2,705,000 Education Revenue Refunding Bonds with Arlington Higher Education Finance Corporation secured by PSF. Semi-annual coupon rates between 2% - 5% and final maturity in 2025.	1,250,000
Series 2017B - \$6,650,000 Education Revenue Bonds with Arlington Higher Education Finance Corporation secured by PSF. Semi-annual Coupon rates between 3.5% - 4% and final maturity in 2047.	6,650,000
Enhanced Capital Term Loan as of August 26, 2022 with an interest rate of the greater of 9.5% or the Prime Rate plus 4.75% calculated in a 360-day year. The maturity date	
Total debt	<u>22,580,000</u>
Plus net of premiums and discount on bonds payable	1,381,082
Less unamortized costs of issuance	(1,325,643)
Less current portion of debt	(1,085,000)
	<u>\$ 21,550,439</u>

The Academy closed on November 30, 2017, \$2,705,000 of Arlington Higher Education Finance Corporation Education Revenue Refunding Bonds Series 2017A and \$6,650,000 in Education Revenue Bonds, Series 2017B bonds. The 2017A series bonds had a premium of \$376,449 and the 2017B series bonds had a discount of \$18,070. The Academy supplemented the bond proceeds with a contribution of \$295,669. Debt and reserve fund proceeds were employed as follows: wire transfer to beneficiary for refunding of 2011Q bonds in the amount of \$3,691,717; retention of \$6,253,000 in a project fund for the acquisition of a building for administrative offices, renovation and improvement of existing campuses, and payment of issuance costs. The stated interest rates for Series 2017A range from 2% to 5% with an effective yield of 1.090% and 2.160% for respective maturities of the bonds. The stated interest rates for Series 2017B range from 3.65% to 4.0% with an effective yield between 3.110% and 3.65%. 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.

Debt Covenants

The Series 2016 and 2017 bonds have multiple debt covenants as outlined by the "Master Trust Indenture and Security Agreement" (the Agreement) between the Academy and the Trustee. These debt covenants include, but are not limited to the following: meeting certain debt service coverage ratios and providing

A.W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

E. Bonds Payable: (Continued)

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. Management believes the Academy was in compliance with these covenants and all other applicable covenants contained in bond agreements for the year ended August 31, 2022, or can remedy any shortfalls within the next operating period.

Schedule of future principal and interest requirements are as follows:

<u>Fiscal Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,085,000	\$ 840,250	\$ 1,925,250
2024	1,440,000	793,000	2,233,000
2025	1,540,000	731,250	2,271,250
2026	840,000	665,150	1,505,150
2027	625,000	631,550	1,256,550
Thereafter	<u>17,050,000</u>	<u>6,682,075</u>	<u>23,732,075</u>
	22,580,000	<u>\$ 10,343,275</u>	<u>\$ 32,923,275</u>
Plus premium on bonds	1,396,268		
Less discount on bonds	(15,186)		
Less issuance costs	<u>(1,325,643)</u>		
Total Debt, as presented	<u>\$ 22,635,439</u>		

F. Note Payable:

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

Enhanced Capital Term Loan as of August 26, 2022 with an interest rate of the greater of 9.5% or the Prime Rate plus 4.75% calculated in a 360-day year. The maturity date of the note is on September 1, 2027.

	<u>2,010,000</u>
Total notes payable	2,010,000
Less: Current portion notes payable	-
Notes payable net of current portion	<u>\$ 2,010,000</u>

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

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2023	\$ -	\$ 180,342	\$ 180,342
2024	-	208,412	208,412
2025	-	208,886	208,886
2026	287,148	195,214	482,362
2027	287,148	165,374	452,522
Thereafter	<u>1,435,704</u>	<u>12,682</u>	<u>1,448,386</u>
Total	<u>\$ 2,010,000</u>	<u>\$ 970,910</u>	<u>\$ 2,980,910</u>

A.W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

G. Operating Leases:

The Academy leases facilities and copying equipment under non-cancelable operating leases. Future minimum payments required under operating lease obligations are as follows:

<u>Twelve months ending August 31,</u>	<u>Amount</u>
2023	\$ 302,653
2024	241,036
2025	157,158
2026	106,099
2027	73,091
Thereafter	-
Total operating lease payments	<u>880,037</u>
Less: present value discount	<u>(35,150)</u>
Total operating lease liabilities	<u>\$ 844,887</u>

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

Rental lot	\$ 6,907
Educational facilities	61,433
Copier equipment	<u>776,547</u>
	<u>\$ 884,887</u>

H. Health Care Coverage:

During the year ended August 31, 2022, employees of the Academy were covered by a Health Insurance Plan (the Plan). The Academy 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.

I. Pension Plan Obligations:

Plan Description

The Academy 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

A.W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

I. Pension Plan Obligations: (Continued)

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, 2022 provided the following information:

Pension Fund	Total Plan Assets 2022	Total Pension Liability 2022	Percent Funded
TRS	\$ 207,621,898,000	\$ 243,553,045,455	75.62%

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% of the member’s annual compensation and a state 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 31 years, the period would be increased by such action. State law provides for a member contribution rate of 8% for fiscal year 2022. The state’s contribution rate as a non-employer contributing entity was 7.75% for fiscal year 2022. The Academy’s employee contributions to the system for the year ended August 31, 2022 were \$635,406, equal to the required contributions for the year.

Other contributions made from federal and private grants and from the Academy for salaries above the statutory minimum were contributed at a rate of 7.5% totaling \$130,387 for the year ended August 31, 2022. The Academy’s contributions into this plan do not represent more than 5% of the total contributions to the plan. The Academy was not assessed pension surcharges.

A.W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

J. Net Assets with Donor Restrictions:

Net assets with donor restrictions at August 31, 2022 are restricted as follows:

Subject to expenditure for specified purposes:

State-financed general charter school activities	\$ 2,928,405
Total restricted funds	<u>\$ 2,928,405</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:

Local Funds	\$ 180,657
State Funds	9,325,174
Federal Funds	5,837,775
Total Restrictions Released	<u>\$ 15,343,606</u>

K. Investments:

Investment balances within the fair value hierarchy at August 31, 2022 are as follows:

	Fair Value Measurements at August 31, 2022			Totals
	Quoted Price In Active Markets Identical Assets Level 1	Significant Observable Other Inputs Level 2	Significant Unobservable Inputs Level 3	
Cash/Money Market	\$ 35,589	\$	\$	\$ 35,589
Fixed Income	711,977			711,977
Equities	70,080			70,080
Mutual Funds	115,677			115,677
Exchange-Traded products	-			-
Total Investments at Fair Value:	<u>\$933,323</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 933,323</u>

L. Concentrations:

The Academy receives substantially all of its funding from state and federal agencies passed through the Texas Education Agency (TEA). All receivables at August 31, 2022 were due from governmental funding sources. Major asset acquisitions are financed primarily with the use of state funds. Title to these assets may revert to the resource provider in the event of an adverse regulatory action. The Academy's classes are dependent primarily on students from a specific geographical area. The students have choices of charter, private and public schools.

A.W. BROWN LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2022

M. Commitments and Contingencies:

The Academy is subject to lawsuits, administrative, and other proceedings in the ordinary course of business. Some of these proceedings may result in fines, penalties or judgements assessed against the Academy that may have an impact on its financial condition. The likely outcome and amount of potential loss in employment-related matters is currently not determinable. Management believes the disposition or ultimate resolution of potential claims will not have a material adverse effect on the financial position of the Academy.

The Academy 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 (“TEA”) 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.

N. Subsequent Events:

The Academy's management has evaluated subsequent events through January 23, 2023, which is the day these statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of A.W. Brown Leadership Academy as of and for the year ended August 31, 2022, and have issued our report thereon dated January 23, 2023, which expressed an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules for Individual Charter School dated August 31, 2022, and appearing on pages 19 to 22 and 34 to 36, are presented for 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
January 23, 2023

A.W. BROWN LEADERSHIP ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Local Support:			
5740 Other Revenues from Local Sources	\$ 2,142,947	\$ 180,657	\$ 2,323,604
5750 Revenue from Cocurricular Activities	19,605	-	19,605
Total Local Support	<u>2,162,552</u>	<u>180,657</u>	<u>2,343,209</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	9,184,343	9,184,343
5820 State Program Revenues Distributed by Texas Education Agency	-	14,962	14,962
Total State Program Revenues	<u>-</u>	<u>9,199,305</u>	<u>9,199,305</u>
Federal Program Revenues:			
5910 Federal Revenues Distributed by Education Service Center	-	20,547	20,547
5920 Federal Revenues Distributed by Texas Education Agency	-	5,814,165	5,814,165
5930 Federal Revenues Distributed by Other Government Agencies	-	3,063	3,063
Total Federal Program Revenues	<u>-</u>	<u>5,837,775</u>	<u>5,837,775</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	15,343,606	(15,343,606)	-
Total Revenues	<u>17,506,158</u>	<u>(125,869)</u>	<u>17,380,289</u>
Expenses			
11 Instruction	8,774,397	-	8,774,397
13 Curriculum Development and Instructional Staff Development	356,226	-	356,226
21 Instructional Leadership	4,150	-	4,150
23 School Leadership	1,103,055	-	1,103,055
31 Guidance, Counseling and Evaluating Services	15,387	-	15,387
33 Health Services	170,736	-	170,736
34 Student (Pupil) Transportation	62,018	-	62,018
35 Food Services	831,113	-	831,113
36 Cocurricular/Extracurricular Activities	60,515	-	60,515
41 General Administration	1,394,986	-	1,394,986
51 Plant Maintenance and Operations	2,577,139	-	2,577,139
52 Security and Monitoring Services	582,740	-	582,740
53 Data Processing Services	624,402	-	624,402
61 Community Services	31,998	-	31,998
71 Debt Service	894,165	-	894,165
81 Fundraising	23,131	-	23,131
Total Expenses	<u>17,506,158</u>	<u>-</u>	<u>17,506,158</u>
Change in Net Assets	<u>-</u>	<u>(125,869)</u>	<u>(125,869)</u>
Net Assets, Beginning of Year	<u>956,108</u>	<u>3,054,274</u>	<u>4,010,382</u>
Net Assets, End of Year	<u>\$ 956,108</u>	<u>\$ 2,928,405</u>	<u>\$ 3,884,513</u>

See accompanying notes to financial statements.

A.W. BROWN LEADERSHIP ACADEMY
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2022

EXPENSES	
6100 Payroll Costs	\$ 8,973,523
6200 Professional and Contracted Services	5,083,865
6300 Supplies and Materials	993,001
6400 Other Operating Costs	1,576,855
6500 Debt	878,914
Total Expenses	<u>\$ 17,506,158</u>

See accompanying notes to financial statements.

A.W. BROWN LEADERSHIP ACADEMY
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2022

	Ownership Interest		
	Local	State	Federal
1110 Cash and Investments	\$ -	\$ 2,591,312	\$ -
1510 Land and Improvements	-	4,962,951	-
1520 Building and Improvements	-	29,652,970	-
1531 Vehicles	-	226,000	-
1532 Right-of-use Assets	-	844,887	-
1549 Furniture and Equipment	-	4,682,113	-
Total Capital Assets	\$ -	\$ 42,960,233	\$ -

See accompanying notes to financial statements.

A.W. BROWN LEADERSHIP ACADEMY
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ -	\$ -	\$ 2,323,604	\$ 2,323,604
5750 Revenue from Cocurricular Activities	-	-	19,605	19,605
Total Local Support	<u>-</u>	<u>-</u>	<u>2,343,209</u>	<u>2,343,209</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	11,789,624	11,789,624	9,184,343	(2,605,281)
5820 State Program Revenues Distributed by Texas Education Agency	-	-	14,962	14,962
Total State Program Revenues	<u>11,789,624</u>	<u>11,789,624</u>	<u>9,199,305</u>	<u>(2,590,320)</u>
Federal Program Revenues:				
5910 Federal Revenues Distributed by Education Service Center	-	-	20,547	20,547
5920 Federal Revenue Distributed by by Texas Education Agency	5,570,370	5,570,370	5,814,165	243,795
5930 Federal Revenues Distributed by Other Government Agencies	-	-	3,063	3,063
Total Federal Program Revenues	<u>5,570,370</u>	<u>5,570,370</u>	<u>5,837,775</u>	<u>267,405</u>
Total Revenues	<u>17,359,994</u>	<u>17,359,994</u>	<u>17,380,289</u>	<u>20,295</u>
EXPENSES				
11 Instruction	7,600,566	7,600,566	8,774,397	(1,173,831)
13 Curriculum Development and Instructional Staff Development	649,870	649,870	356,226	293,644
21 Instructional Leadership	-	-	4,150	(4,150)
23 School Leadership	1,001,741	1,001,741	1,103,055	(101,314)
31 Guidance, Counseling and Evaluating Services	155,858	155,858	15,387	140,471
33 Health Services	167,683	167,683	170,736	(3,053)
34 Student (Pupil) Transportation	290,137	290,137	62,018	228,119
35 Food Services	908,582	908,582	831,113	77,469
36 Cocurricular/Extracurricular Activities	59,500	59,500	60,515	(1,015)
41 General Administration	1,989,391	1,989,391	1,394,986	594,405
51 Plant Maintenance and Operations	2,536,983	2,536,983	2,577,139	(40,156)
52 Security and Monitoring Services	52,000	52,000	582,740	(530,740)
53 Data Processing Services	421,091	421,091	624,402	(203,312)
61 Community Services	-	-	31,998	(31,998)
71 Debt Service	1,212,445	1,212,445	894,165	318,280
71 Fundraising	-	-	23,131	-
Total Expenses	<u>17,045,846</u>	<u>17,045,846</u>	<u>17,506,158</u>	<u>(437,182)</u>
Change in Net Assets	<u>314,148</u>	<u>314,148</u>	<u>(125,869)</u>	<u>(416,887)</u>
Net Assets, Beginning of Year	<u>4,010,382</u>	<u>4,010,382</u>	<u>4,010,382</u>	<u>-</u>
Net Assets, end of year	<u>\$ 4,324,530</u>	<u>\$ 4,324,530</u>	<u>\$ 3,884,513</u>	<u>\$ (416,887)</u>

See accompanying notes to financial statements.

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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 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 Leadership Academy (a nonprofit organization), which comprise the statement of financial position as of August 31, 2022, 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 23, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered A.W. Brown Leadership Academy'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of A.W. Brown Leadership Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the A.W. Brown 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether A.W. Brown 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 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*.

A.W. Brown Leadership Academy's Response to Findings

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read "Lopez & Company".

Houston, TX
January 23, 2023

GOMEZ & COMPANY

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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 Leadership Academy
Dallas, Texas

Report on Compliance for Each Major Federal Program

We have audited A.W. Brown Leadership Academy (the Academy)'s 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 the Academy's major federal programs for the year ended August 31, 2023. The Academy'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, the 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, 2022.

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 the Academy 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 the Academy'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 the Academy's federal programs.

Auditor's Responsibilities 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 the Agency'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 the Academy'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 the Academy's compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the Academy'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 the Academy'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.

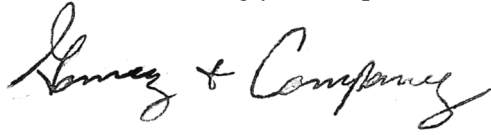
Report on Internal Control Over Compliance

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 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 Auditor's Responsibilities for the Audit Compliance section above 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 black ink that reads "Ramirez & Company". The signature is written in a cursive, flowing style.

Houston, TX
January 23, 2023

A.W. BROWN LEADERSHIP ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2022

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. One significant deficiency disclosed during the audit of the financial statements which is not considered a material weaknesses on internal control over financial statements, Item 2022-001.
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 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 Agriculture
Passed – Through Texas Education Agency and Education Service Center
Education Stabilization Fund CFDA Number 84.425
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. A.W. Brown Leadership Academy does not qualify as a low-risk auditee.

A.W. BROWN LEADERSHIP ACADEMY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2022

<u>Current Year Findings</u>	Questioned Cost
Finding 2022-001 Internal Control over Financial Reporting	\$-0-

Condition:

During the audit, we noted the Academy’s monitoring of the financial reporting process continues to show effectiveness. As a result, several key financial entries had to be recorded to the Academy’s general ledger to correct account balances. Some prior year audit adjustments were not properly reversed, year-end accruals were not recorded, discrepancies within bank reconciliations were left unresolved, and various account balances had to be corrected.

Criteria:

Management is responsible for the preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America, which 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.

Cause:

There are no procedures in place to require management to review the general ledger and bank account reconciliations in a timely manner to ensure all transactions are properly recorded.

Effect:

Without recording of key financial entries, reconciling of accounts, and proper coding, the agency will not have an accurate and reliable general ledger, which will result in misleading financial statements that hinder management’s ability to make prudent financial decisions.

Recommendation:

We recommend the agency implement procedures and controls to provide for timely recording of financial transactions, month-end entries, and year-end closing entries. In addition, the general ledger and bank reconciliations should be reviewed monthly by someone in the capacity of a controller or chief financial officer. These recommendations have been discussed with the agency’s management and action will be taken to ensure that the recommendations are implemented.

Views of Responsible Officials and Planned Corrective Actions:

See management’s corrective action plan at page 33.

A.W. BROWN LEADERSHIP ACADEMY
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2022

<u>Prior Year Findings</u>	Questioned <u>Cost</u>
Finding 2021-001 Internal Control over Financial Reporting	\$-0-

Condition:

During the audit, we noted monitoring of the financial reporting process was ineffective. As a result, several key financial entries had to be recorded to the Charter School’s general ledger to correct account balances. The prior year audit adjustments were not properly recorded and or reversed, year-end accruals were not recorded, bank reconciliations were not performed monthly and various account balances had to be corrected.

Criteria:

Management is responsible for the preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America, which 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.

Cause:

There are no procedures in place to require management to review the general ledger in a timely manner to ensure all transactions are properly recorded.

Effect:

Without recording of key financial entries, reconciling of accounts, and proper coding, the agency will not have an accurate and reliable general ledger, which will result in misleading financial statements and hinder management’s ability to make prudent financial decisions.

Recommendation:

We recommend the agency implement procedures and controls to provide for timely recording of financial transactions, month-end entries and year-end closing entries. In addition, the general ledger should be maintained and reviewed monthly by someone in the capacity of a controller or chief financial officer. These recommendations have been discussed with the agency’s management and action will be taken to ensure that the recommendations are implemented.

Status:

See current year finding 2022-001 at page 29.

A.W. BROWN FELLOWSHIP LEADERSHIP ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2022

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	226600010578166000	\$ 260,113
Idea - B Formula-ARP	84.027X	225350010578165000	17,716
Passed - Through Education Service Center:			
Title I, Part A, School Improvement	84.010A	22610101057950	681,340
Title I, Part C	84.011A	22615001057950	2,246
Title II, Part A, Teacher/Principal Training & Recruiting	84.367A	22694501057950	63,120
Title III, Part A, English Language Acquisitions and Language Enhancement	84.365A	22671001057950	159
Title IV, Part A	84.424A	22680101057950	67,962
Total U.S. Department of Education, non-COVID-19 Assistance			<u>1,092,655</u>
Passed - Through Texas Education Agency:			
COVID-19 - Elementary and Secondary School Emergency Relief Fund II (CRRSA-ESSER II)	84.425D	21521001057816	752,555
COVID-19 - Elementary and Secondary School Emergency Relief Fund III (ARP-ESSER III)	84.425U	21528001057816	2,829,729
COVID-19 - Elementary and Secondary School Emergency Relief Fund III (TCLAS- ESSER III)	84.425U	21528042057816	459,478
Passed - Through Education Service Center:			
COVID-19 - Elementary and Secondary School Emergency Relief (ESSER)	84.425D	20521001057816	26,499
Total U.S. Department of Education, COVID-19 Assistance			<u>4,068,261</u>
Total U.S. Department of Education			<u>5,160,916</u>
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
School Breakfast	10.553	71402101	29,476
School Breakfast	10.553	71402201	180,296
National School Lunch	10.555	71302101	40,024
National School Lunch	10.555	71302201	331,502
Passed - Through Texas Department of Agriculture			
USDA Commodity Food Distribution	10.555		92,498
Total U.S. Department of Agriculture, non-COVID-19 Assistance			<u>673,796</u>
Passed - Through Texas Department of Agriculture			
COVID-19 - P-EBT	10.649		3,063
Total U.S. Department of Agriculture			<u>676,859</u>
Total Expenditures of Federal Awards			<u>\$ 5,837,775</u>

A.W. BROWN LEADERSHIP ACADEMY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal award activity of A.W. Brown Leadership Academy under programs of the federal government for the year ended August 31, 2022. 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 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 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

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

Subrecipients

The Organization did not provide federal awards to subrecipients.

A.W. BROWN LEADERSHIP ACADEMY
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2022

Finding 2022-001
Internal Control over Financial Reporting

Condition:

During the audit, we noted the Academy's monitoring of the financial reporting process continues to show effectiveness. As a result, several key financial entries had to be recorded to the Academy's general ledger to correct account balances. Some prior year audit adjustments were not properly reversed, year-end accruals were not recorded, discrepancies within bank reconciliations were left unresolved, and various account balances had to be corrected.

Views of Responsible Officials and Planned Corrective Actions:

Our correction action plans are already being implemented by the following:

1. The Superintendent will appoint an experienced financial accountant to implement procedures and controls to provide for timely recording of financial transactions, month-end entries and year-end closing entries.
2. Work collaboratively with Region 11 ESC in support of the business office.
3. AWBLA will on a monthly basis:
 - a. Process all invoices, payments, bank statements and other financial information in a timely manner,
 - b. Review the general ledger to ensure the end of the year audit adjustments are posted, year-end actuals are recorded, and ensure the bank reconciliations are completed, and
 - c. Continue to work closely with the Region 11 staff to correct and note any account corrections as needed.

Effective Date: February 13, 2023

Responsible Party: Director of School Finance

Estimate Completion Date: March 1, 2024

A.W. BROWN LEADERSHIP ACADEMY
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
FOR THE YEAR ENDED AUGUST 31, 2022

Description	Property Address	Total Assessed	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
BLK 1 LT 1 ACS 6.005	1600 S Cockrell Hill Rd	\$ 3,420,679	\$ -	\$ 3,420,679	\$ -
TR 9 ACS 99.265	1000 E Daniieldale Rd	2,083,554	-	2,083,554	-
BLK 1/6962 PT LT 4 ACS 0.9549	4221 S Walton Walker Blv	561,620	-	561,620	-
BLK 1/6962 PT LT 4 ACS 2.2382	4221 Walton Walker Blvd	1,178,190	-	1,178,190	-
BLK P/6045 LT 2 ACS 3.9359	3810 W Red Bird Ln	3,085,541	-	3,085,541	-
BLK C/6050 TR 1 ACS 4.0093	5650 Red Bird Center Dr	540,690	-	540,690	-
BLK D/6050 TR 1 ACS 7.8804	5701 Red Bird Center Dr	13,644,482	-	13,644,482	-
BLK H/6045 LT 1A ACS 6.125	6891 S Westmoreland Rd	9,336,045	-	9,336,045	-

See accompanying notes to financial statements.

A.W. BROWN LEADERSHIP ACADEMY
 SCHEDULE OF RELATED PARTY TRANSACTIONS
 FOR THE YEAR ENDED AUGUST 31, 2022

Related Party Name	Name of Relation to the Related Party	Relationship	Type of Transaction	Description of Terms and Conditions	Source of Funds Used	Payment Frequency	Total Paid During FY	Principal Balance Due
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None

A. W. BROWN LEADERSHIP ACADEMY
SPECIAL PROGRAM COMPLIANCE SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2022

<u>Data Codes</u>		<u>Responses</u>
<u>Section A: Compensatory Education Program</u>		
AP1	Did your LEA expend any state compensatory education program state allotment funds during the District's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the District's fiscal year.	\$ 1,471,617
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$ 1,493,736
<u>Section B: Bilingual Education Programs</u>		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	\$ 4,799
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	\$ 0

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

5177 RICHMOND AVE. SUITE 1100

HOUSTON, TX 77056

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January 23, 2023

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

We have audited the financial statements of A.W. Brown Leadership Academy (a nonprofit organization) for the year ended August 31, 2022, and we have issued our report thereon dated January 23, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 25, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by A.W. Brown Leadership Academy are described in Note B to the financial statements. We noted no new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended August 2022. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the Foundation revenue accrual is based on an overall annual estimate provided by the state that takes into account student attendance data. We evaluated the key factors and assumptions used to develop the Foundation revenue accrual in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of operating lease liabilities and the amounts to be paid in the future in connection with those lease liabilities. The disclosure stems from newly adopted accounting guidance that presents existing information in a new format. Management's assessment appears to be reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, several of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 23, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Audit Findings

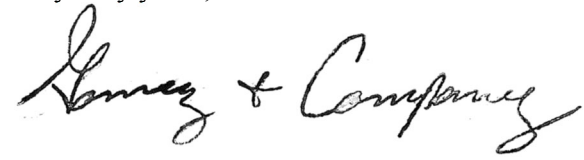
Our consideration of internal control over financial reporting was for the limited purpose of planning and performing our audit of the financial statements and not for the purpose of expressing an opinion on the effectiveness of that internal control. Our consideration of internal control, and the results of other audit procedures performed, indicated a significant deficiency exists that resulted in the misstatement of balances related to internal control over financial reporting. This audit finding is described within the Schedule of Findings and Questioned Costs on page 28 of the audit report. Our audit report dated January 23, 2023, disclosed one audit finding, Item 2022-001, that is required to be disclosed.

Page 3

Communications with Board of Directors

This information is intended solely for the use of the Board of Directors of A.W. Brown Leadership Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Gomez & Company". The signature is written in black ink and is positioned above the printed name of the company.

Gomez & Company