

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

**Annual Financial and Compliance Audit
and
Independent Auditor's Report**

Year Ended August 31, 2016

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

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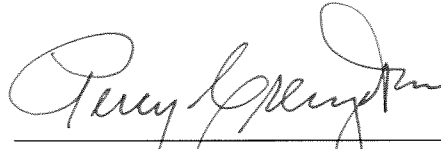
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ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)
CDN: 101810
(Federal Employer Identification Number: 31-1583056)
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Academy of Accelerated Learning, Inc. was reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2016, at a meeting of the governing body of the charter holder on the 20th day of January, 2017.



Signature of Board Secretary



Signature of Board President



INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors of
Academy of Accelerated Learning, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Academy of Accelerated Learning, Inc. (the "Academy"), a Texas 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 of 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 Academy'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 Academy'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 the 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 on page 22, as required by the Uniform Guidance, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information on pages 15 through 17 is likewise presented for purposes of additional analysis, as required by the Texas Education Agency, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2017, on our consideration of the Academy's internal control over financial reporting and 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 the Academy's internal control over financial reporting and compliance.

McConell & Jones LLP

Houston, Texas
January 20, 2017

Financial Statements

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

STATEMENT OF FINANCIAL POSITION
YEAR ENDED August 31, 2016

ASSETS

Current Assets:

Cash	\$ 5,035,919
Grant receivables	249,977
Total current assets	<u>5,285,896</u>

Noncurrent Assets:

Property and equipment, net	91,652
Total noncurrent assets	<u>91,652</u>
TOTAL ASSETS	<u><u>5,377,548</u></u>

LIABILITIES AND NET DEFICIT

Current Liabilities:

Accounts payable	90,251
Payroll and related liabilities	195,044
Total current liabilities	<u>285,295</u>
TOTAL LIABILITIES	<u>285,295</u>

Net Assets:

Temporarily restricted	3,937,962
Unrestricted	1,154,291
Total net assets	<u>5,092,253</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,377,548</u></u>

The accompanying notes are an integral part of these financial statements.

ACADEMY OF ACCELERATED LEARNING, INC.
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STATEMENT OF ACTIVITIES
YEAR ENDED August 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local support:			
5729 Child nutrition - other income	\$ 46,684	\$ -	\$ 46,684
5742 Other revenue	15,513	-	15,513
Total local and other revenues	62,197	-	62,197
State program revenues:			
5812 Foundation school program act entitlements	-	6,053,763	6,053,763
5826 State program Rev-PreK	-	80,275	80,275
Total state program revenues	-	6,134,038	6,134,038
Federal program revenues:			
5749 Child care development grant		48,808	48,808
5830 Fruits and vegetable program	-	11,764	11,764
5929 Grade school lunch match grant	-	-	-
5921 School breakfast program	-	141,624	141,624
5922 National school lunch program	-	352,623	352,623
5929 ESEA Title I Part A	-	249,593	249,593
5929 ESEA Title II Part A	-	43,573	43,573
5929 ESEA Title III Part A	-	63,776	63,776
5929 ESEA Title III Summer LEP	-	2,330	2,330
5929 IDEA PART B formula	-	65,843	65,843
5929 IDEA B Preschool	-	1,205	1,205
Total federal program revenues	-	981,139	981,139
Net assets released from restrictions:			
Restrictions satisfied by payments	6,474,012	(6,474,012)	-
TOTAL REVENUES	\$ 6,536,209	\$ 641,165	\$ 7,177,374

Continued

The accompanying notes are an integral part of these financial statements.

ACADEMY OF ACCELERATED LEARNING, INC.
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STATEMENT OF ACTIVITIES, CONTINUED
YEAR ENDED August 31, 2016

	Unrestricted	Temporarily Restricted	Total
EXPENSES			
11 Instruction	\$ 3,260,253	\$ -	\$ 3,260,253
12 Instructional resources and media services	54,417	-	54,417
13 Curriculum development and instructional staff development	58,871	-	58,871
23 School leadership	316,559	-	316,559
31 Guidance, counseling and evaluation services	26,981	-	26,981
33 Health services	78,955	-	78,955
35 Food services	585,846	-	585,846
36 Cocurricular/extracurricular activities	1,308	-	1,308
41 General administration	480,252	-	480,252
51 Facilities maintenance and operations	1,571,982	-	1,571,982
52 Security and monitoring services	3,920	-	3,920
53 Data processing	34,668	-	34,668
TOTAL EXPENSES	<u>6,474,012</u>	<u>-</u>	<u>6,474,012</u>
CHANGE IN NET ASSETS	62,197	641,165	703,362
NET ASSETS, BEGINNING	1,092,094	3,296,797	4,388,891
NET ASSETS, END OF YEAR	<u>\$ 1,154,291</u>	<u>\$ 3,937,962</u>	<u>\$ 5,092,253</u>

Concluded

The accompanying notes are an integral part of these financial statements.

ACADEMY OF ACCELERATED LEARNING, INC.
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STATEMENT OF CASH FLOWS
YEAR ENDED August 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

State grant receipts	\$ 6,123,952
Federal grant receipts	981,139
Receipts from miscellaneous sources	62,197
Payments to or on behalf of employees for services rendered	(4,040,712)
Payments to vendors for goods and services rendered	(2,541,406)
Net cash provided by operating activities	<u>585,170</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	<u>(33,770)</u>
Net cash used in investing activities	<u>(33,770)</u>

NET INCREASE IN CASH 551,400

CASH, BEGINNING OF YEAR 4,484,519

CASH, END OF YEAR \$ 5,035,919

Reconciliation of change in net assets

to net cash used in operating activities:

Change in net assets \$ 703,362

Adjustments to reconcile change in net assets

to net cash used in operating activities:

Depreciation and amortization	20,085
Increase in grant receivable	(10,086)
Decrease in other assets	5,000
Decrease in accounts payable	(125,353)
Increase in payroll and related liabilities	7,070
Increase in accrued expenses	<u>(14,908)</u>

Total adjustments (118,192)

Net cash provided by operating activities \$ 585,170

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

ACADEMY OF ACCELERATED LEARNING, INC.
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED August 31, 2016

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Academy of Accelerated Learning, Inc. (the “Academy”) is a not-for-profit organization incorporated in the State of Texas in 1998 and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Academy is governed by a Board of Directors comprised of three members. The Board of Directors is selected pursuant to the bylaws of the Academy and has the authority to make decisions, appoint the Academy’s Superintendent, and significantly influences operations. The Board of Directors has 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.

Corporate Operations

The Academy was organized to provide educational services to at-risk students in Houston Metropolitan area in Texas. The programs, services, activities and functions are governed by the Academy’s Board of Directors. On May 15, 1998, the Texas State Board of Education granted the Academy an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, the Academy opened on September 1, 1998 under a contract for charter executed on May 15, 1998 and which expired on July 31, 2003. The contract for charter which initially expired on July 31, 2003 was extended for a ten-year period which ended on July 31, 2013. The charter holder submitted its charter renewal application to Texas Education Agency (TEA) on March 26, 2013 before the due date of April 5, 2013. TEA approved the charter holder's renewal application on April 2, 2014, with an effective date of August 1, 2013, to expire on July 31, 2023.

The Academy is part of the public school system of the State of Texas and is, therefore, entitled to distributions from the State’s available school fund. The Academy does not have the authority to impose ad valorem taxes on its district or to charge tuition.

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board (FASB) is the standards setting body that establishes accounting and financial reporting principles for nonprofit organizations.

The Academy’s financial statements are presented in accordance with FASB’s Accounting Standards Codification (ASC) Topic 958-205, *Not-For-Profit Entities, Presentation of*

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED August 31, 2016

Financial Statements. Under FASB ASC Topic 958-205, net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Academy and changes therein are classified and reported as follows:

Unrestricted – These are net assets that are not subject to donor-imposed stipulations and can be used for the general operations of the Academy.

Temporarily restricted – These are net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Academy, 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 – These are net assets that are required to be maintained in perpetuity with only the income to be used for the Academy's activities due to donor-imposed restrictions. The Academy did not have any permanently restricted net assets as of August 31, 2016.

Contributions

The Academy accounts for contributions in accordance with FASB ASC Topic 958-605, *Not-For-Profit Entities, Revenue Recognition*. In accordance with FASB ASC Topic 958-605, 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.

No amounts have been reflected in the financial statements for donated materials or services since no objective basis is available to measure the value thereof; however, a substantial number of volunteers donate their time to the school program services and in fund-raising activities. Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support. Contributions with donor imposed restrictions are reported as restricted support. Restricted support increases temporarily restricted net assets. Contributions without donor imposed restrictions are reported as unrestricted support. Unrestricted support increases unrestricted net assets.

Revenue Recognition

State Foundation School Program revenues are recognized based on the reported student attendance. State and Federal grant revenues are recognized when services are rendered. Contributions and other revenues are recognized when received or unconditionally promised by a third party.

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED August 31, 2016

Cash and Cash Equivalents

The Academy considers all monies in banks and highly liquid investments with maturities of three months or less from date of purchase to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. The amount of cash equivalents included in cash and cash equivalents as of August 31, 2016 was \$2,250,000.

Grants Receivable

Grants receivable represent pending reimbursements of program expenses incurred and billed as of August 31, 2016 and expected to be received from the funding sources in the subsequent year. Management considers grants receivable as of August 31, 2016 in the amount of \$249,977 to be fully collectible. Accordingly, no allowance for delinquent grants receivable was made in the accompanying financial statements.

Capital Assets

Capital assets include leasehold improvements, equipment, furniture and fixtures. Capital assets are defined by the Academy as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, using the straight-line method of depreciation. Expenditures for capital asset additions, major renewals and betterments of capital assets are capitalized, and maintenance and repairs are charged to expense as incurred. Donated capital assets are recorded as direct additions to net assets at fair value at the date of donation. The Academy did not have any donated capital assets as of August 31, 2016.

Federal Income Taxes

The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. The Academy did not conduct unrelated business activities during the year ended August 31, 2016. Accordingly, the Academy did not provide for federal income taxes in the accompanying financial statements.

The Academy applies the provisions of FASB ASC Topic 740-10, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740-10 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. The Academy believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Academy's Federal income tax returns for years 2013 through 2015 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

ACADEMY OF ACCELERATED LEARNING, INC.
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED August 31, 2016

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in the Academy's financial statements are the state funding receivables, functional allocations of expenses and the useful lives used for estimating annual depreciation and amortization amounts for property and equipment.

New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – *Leases (Topic 842)*, which supersedes existing guidance on leases and amends and supersedes a number of other paragraphs throughout the FASB ASC. This update will be effective for the Academy's 2021 annual financial statements. Management is currently evaluating the impact this update will have on the financial statements.

2. CONCENTRATION OF CREDIT AND BUSINESS RISKS

The Academy maintains cash balances with financial institutions in the state. As of August 31, 2016, the Academy's cash balance at one of the financial institutions exceeded the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per customer by \$4,452,933. Management believes that this credit risk exposure was mitigated by the financial strength of the banking institutions in which the deposits were held.

Credit risk associated with receivables is minimal due to the credit worthiness of the federal, state and local funding agencies.

The State of Texas and Federal Government provided 83% and 16%, respectively, of the Academy's total revenues for the year ended August 31, 2016.

3. PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2016, were as follows:

CAPITAL ASSETS

	<u>Amount</u>
Computer and equipment	\$ 77,112
Furniture and fixtures	232,765
Leasehold improvements	<u>263,375</u>
	573,252
Accumulated depreciation and amortization	<u>(481,600)</u>
Property and equipment, net	<u><u>\$ 91,652</u></u>

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED August 31, 2016

Capital assets acquired with public funds received by the Academy for operations constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets on page 15.

Depreciation and amortization expense for the year ended August 31, 2016 was \$20,085.

4. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2016, the Academy had temporarily restricted net assets of \$3,940,326 that consisted of the following, by program:

<u>Program</u>	<u>Amount</u>
Foundation School Program and other State Aid	\$ 3,940,926
	<u>\$ 3,940,926</u>

5. OPERATING LEASES

The Academy leases office space, equipment and classrooms under operating leases. The rental expense for all operating leases for the year ended August 31, 2016 was \$853,082.

The following is a schedule of future minimum lease payments, by year, on noncancellable operating leases.

2017	\$ 536,303
2018	552,392
2019	568,964
2020	535,857
	<u>\$ 2,193,516</u>

6. COMMITMENTS AND CONTINGENCIES

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. In addition, expenses charged to federal and state programs are subject to audit and adjustment by the grantor agencies. The programs administered by the Academy have multiple compliance requirements, and should state or federal auditors discover areas of noncompliance, the funds may be subject to refund if so determined by the TEA or the grantor agencies.

On December 9, 2016, TEA issued a final report (the "Final Report"), in which matters related to a TEA Special Accreditation Investigation involving ex-superintendent post-

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED August 31, 2016

employment benefits payments were resolved. The Final Report recommended installation of a monitor, and board and officer training as corrective action. Pursuant to the Final Report, On January 10, 2017, the Commissioner of Education notified the Academy of his intent to appoint a monitor to report quarterly on compliance with state law and TEA rules governing use of funds.

7. PENSION PLAN OBLIGATIONS

Plan Description

The Academy contributes to the Teacher Retirement System of Texas (the “System” or “TRS”), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the Academy, but are the liability of the State of Texas. The System administers retirement and disability annuities, and death and survivor benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in the Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas legislature. The System 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 System’s Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the System’s Communications Department at 1-800-223-8778, or by downloading the report from the System’s Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

The risk of participating in this multiemployer defined benefit pension plan is different from a single-employer plan because: (a) the Academy is a legally separate entity from the State of Texas, (b) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (c) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (d) if an entity chooses to stop participating in the multiemployer plan, there is no withdrawal liability to the plan. The Academy has no plans to withdraw from its multiemployer plan.

The following present information about the Academy's multiemployer pension plan as of and for the year ended August 31, 2016:

<u>Name of Pension</u>	<u>EIN and Plan No.</u>	<u>Total Plan Assets</u>		<u>Accumulated Benefit</u>		<u>% funded</u>	
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
TRS	N/A	\$152,925,647	\$149,780,062	\$171,797,150	\$163,887,375	78.00%	78.43%

The following presents information about the Academy’s involvement of such multiemployer pension plan for the year ended August 31, 2016:

<u>Collective Bargaining Agreement</u>	<u>School's Contributions</u>	<u>More than 5% of Total Contributions</u>	<u>FIP/RP Status</u>	<u>Surcharge Imposed</u>
N/A	\$85,975	No	N/A	No

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YEAR ENDED August 31, 2016

Funding Policy

Under provisions in State law, the System's plan members are required to contribute 7.20% of their annual covered salary for TRS Retirement and 0.65% of their annual covered salary to TRS Care. The State of Texas contributes an amount equal to 6.80% of the covered payroll of the participating employees compensated with State funds for TRS Retirement for TRS Care. The Academy employees' contributions to the TRS System were as follows:

	<u>2016</u>
TRS Retirement	\$ 221,820
TRS Care	<u>20,025</u>
	<u>\$ 241,845</u>

The Academy's total contribution to the TRS System, for both TRS Retirement and TRS Care, were \$16,946, for the fiscal year ended August 31, 2016.

8. HEALTH CARE COVERAGE

During the year ended August 31, 2016, employees of the Academy were covered by a Health Insurance Plan (the "Plan"). The Academy contributed, depending on the coverage option selected by employees, \$341 per month per employee to the Plan. Employees, at their option, authorized payroll deductions to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

9. CHARTER HOLDER OPERATIONS

The charter holder operated only a single charter in fiscal year 2016 and did not conduct any other charter or non-charter activities. The charter holder's current charter is set to expire on July 31, 2023.

10. EXPLANATION OF AMENDMENT TO THE BUDGET AND BUDGET VARIANCES

Prior to the beginning of each school year, the Academy prepares and submits its annual budget for the next fiscal year. However, due to the significant inflows and outflows of students from the program, the budget must be amended on a regular basis. This has resulted in the variances between the original adopted budget and final amended budget presented on the Budgetary Comparison Schedule.

There are variances between the originally adopted budget and the final budget. Function 12 (Instructional Resources and Media Services) had a variance of \$12,000 in final budget from original budget as the source of staff funding changed. Function 31 (Guidance, Counseling and Evaluation Services) had a variance of \$6,000 in final budget from original budget due to

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED August 31, 2016

additional hours worked by part-time counselor. Function 33 (Health Services) had a variance of \$20,000 in final budget from original budget due to additional health service staff hired after budget adoption. Function 34 (Student Transportation) had a variance of \$100,000 in final budget from original budget as planned transportation program was not implemented and funds were moved to other functions as needed. Function 35 (Food Services) had a variance of \$118,500 in final budget from original as this was the first year with new child nutrition catering company and original budget had underestimated amounts. Function 41 (General Administration) had a variance of \$48,020 in final budget from original due to employees' status change after budget adoption and unforecast activities. Function 52 (Security and Monitoring Services) had an unfavorable variance of \$2,500 in final budget from original budget due to underestimation of expenses in original budget. Function 71 (Other Debt Fees) had a variance of \$189,000 in final budget from original budget as planned financing activities did not occur and funds were moved to other functions as needed.

There are variances between the actual expenditures and the final budgeted amounts. Function 23 (Student Leadership) contained an unfavorable variance of \$37,456 from budget. In addition, function 12 (Instructional Resources and Media Services) contained an unfavorable variance of \$5,439 from budget. The variances were primarily due to additional projects and staffing for fiscal year 2016.

Management has taken steps to ensure that future related budgets are amended on a frequent basis to reflect changes in actual and budgeted amounts.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events January 20, 2017. This was the date the financial statements were available to be issued. No changes were made to the financial statements as a result of this evaluation.

Supplementary Information

ACADEMY OF ACCELERATED LEARNING, INC.
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SCHEDULE OF EXPENSES
YEAR ENDED August 31, 2016

6100	Payroll costs	\$	3,915,359
6200	Professional and contracted services		1,626,722
6300	Supplies and materials		866,721
6400	Other operating costs		<u>65,210</u>
	Total expenses	\$	<u><u>6,474,012</u></u>

ACADEMY OF ACCELERATED LEARNING, INC.
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SCHEDULE OF CAPITAL ASSETS
August 31, 2016

		Ownership Interest		
		Local	State	Federal
1535	Computer and equipment	\$ -	\$ 77,112	\$ -
1539	Furniture and fixtures	-	232,766	-
1540	Leasehold improvements	-	263,374	-
1570	Accumulated Depreciation	-	(481,600)	-
	Total property and equipment at cost	<u>\$ -</u>	<u>\$ 91,652</u>	<u>\$ -</u>

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

BUDGETARY COMPARISON SCHEDULE
YEAR ENDED August 31, 2016

	Original budgeted amounts	Final budgeted amounts	Actual amounts	Variance from final budget
Local support:				
5729 Income-Local	\$ 25,000	\$ 25,000	\$ 46,684	\$ 21,684
5742 Foundation-Interest Earned	-	-	15,513	15,513
Total local support	25,000	25,000	62,197	37,197
State program revenues:				
5812 Foundation school program act entitlements	5,628,151	5,628,151	6,053,763	425,612
5826 State program Rev-PreK	-	-	80,275	80,275
Total state program revenues	5,628,151	5,628,151	6,134,038	505,887
Federal program revenues:				
5749 Child care development grant	50,000	50,000	48,808	(1,192)
5830 Fruits and vegetable program	17,500	17,500	11,764	(5,736)
5929 Grade school lunch match grant	2,900	2,900	-	(2,900)
5921 School breakfast program	500,000	160,000	141,624	(18,376)
5922 National school lunch program	-	340,000	352,623	12,623
5929 ESEA Title I Part A	231,000	231,000	249,593	18,593
5929 ESEA Title I Part A - Priority Focus	-	17,000	-	(17,000)
5929 ESEA Title II Part A	38,800	38,800	43,573	4,773
5929 ESEA Title III Part A	41,665	41,665	63,776	22,111
5929 Title III - Summer LEP	7,000	7,000	2,330	(4,670)
5929 IDEA PART B formula	80,160	80,160	65,843	(14,317)
5929 IDEA B Preschool	1,350	1,350	1,205	(145)
Total Federal Program Revenues	970,375	987,375	981,139	(6,236)
TOTAL REVENUES	\$ 6,623,526	\$ 6,640,526	\$ 7,177,374	\$ 536,848
Expenses:				
11 Instruction	\$ 3,485,822	\$ 3,493,251	\$ 3,260,253	232,998
12 Instructional resources and media services	36,978	48,978	54,417	(5,439)
13 Curriculum development and instructional staff development	69,249	72,649	58,871	13,778
21 Instructional leadership	-	-	-	-
23 School leadership	276,773	276,773	316,559	(39,786)
31 Guidance, counseling and evaluation services	23,245	29,245	26,981	2,264
33 Health services	52,270	72,270	78,955	(6,685)
34 Student (pupil) transportation	110,000	-	-	-
35 Food services	457,180	575,680	585,846	(10,166)
36 Cocurricular/extracurricular activities	-	1,500	1,308	192
41 General administration	404,662	452,682	480,252	(27,570)
51 Facilities maintenance and operations	1,426,821	1,541,821	1,571,982	(30,161)
52 Security and monitoring services	2,000	4,500	3,920	580
53 Data Processing Services	-	33,980	34,668	(688)
71 Other Debt Fees	226,197	37,197	-	37,197
TOTAL EXPENSES	\$ 6,571,197	\$ 6,640,526	\$ 6,474,012	166,514
CHANGE IN NET ASSETS	52,329	-	703,362	370,334
NET ASSETS, BEGINNING OF YEAR			4,388,891	
NET ASSETS, END OF YEAR			<u>\$ 5,092,253</u>	

See financial statements footnote 10 for the explanations to budget amendments and budget variances.

Compliance and Internal Control



**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 Members of the Board of Directors of
Academy of Accelerated Learning, Inc.

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 Academy of Accelerated Learning, Inc. (the "Academy"), a Texas 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 January 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

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 over financial reporting 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 the Academy's financial statements are free of 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 two instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding No. 2016-001 and Finding No. 2016-002.

The Academy's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

We noted certain matters that we reported to management of the Academy in a separate letter dated January 20, 2017.

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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConell & Jones LLP

Houston, Texas
January 20, 2017



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

To the Board of Directors
Academy of Accelerated Learning, Inc.

Report on Compliance for Each Major Program

We have audited Academy of Accelerated Learning, Inc.'s (the "Academy") compliance with the types of compliance requirements described 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, 2016. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 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 the 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 of major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on Each Major Federal Program

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, 2016.

Report on Internal Control over Compliance

Management of the 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, we considered the 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 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 the 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McConde & Jones LLP

Houston, Texas
January 20, 2017

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED August 31, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Pass-Through State Department of Education			
Pass-Through Texas Education Agency			
School Breakfast Program ¹	10.553	71401401	\$ 141,624
National School Lunch Program ¹	10.555	71301401	352,623
			<u>494,247</u>
Pass-Through Texas Department of Agriculture			
Fresh Fruit and Vegetable Program	10.582	CE ID 00479	<u>11,764</u>
Total U.S. Department of Agriculture			<u>506,011</u>
U.S. Department of Education			
Pass-Through State Department of Education			
Pass-Through Texas Education Agency			
ESEA Title I Part A: Improving Basic Education Program	84.010A	1561011210181002	233,415
Title I Focus 1003(A) Priority and Focus School Grant	84.010A	15610112101810002	16,177
IDEA Part B: Special Education Program ²	84.027A	156600011018106600	65,843
IDEA Preschool: Special Education - Preschool Grants ²	84.173A	146610011018106610	1,205
ESEA Title II Part A: Improving Teacher Quality Program	84.367A	15694501101810	43,573
ESEA Title III Part A: English Language Acquisition Program	84.365A	15671001101810	63,776
ESEA Title III - Summer LEP	84.369A	69551302	<u>2,330</u>
Total U.S. Department of Education			<u>426,319</u>
U.S. Department of Health and Human Services			
Pass-Texas Workforce Commission			
Pass-Through Harris County Department of Education			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2812CCM24	30,000
Pass-Through City of Houston			
Community Development Block Grant program for Entitlement Communities	14.218	N/A	<u>18,809</u>
Total U.S. Department of Health and Human Services			<u>48,809</u>
Total Expenditures of Federal Awards			<u>\$ 981,139</u>

Note 1: Represents Child Nutrition Cluster

Note 2: Represents Special Education Cluster (IDEA)

See accompanying notes to the schedule of expenditures of federal awards.

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED August 31, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the Academy of Accelerated Learning, Inc. (“the Academy”) under programs of the federal government for the year ended August 31, 2016. The information in the 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 operations of the Academy, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Academy.

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

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The accrual basis of accounting is described in Note 1 to the financial statements.

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Uniform Guidance Compliance Supplement.

3. RELATIONSHIP TO FINANCIAL REPORT SUBMITTED TO GRANTOR AGENCIES

Amounts reflected in the financial reports filed with grantor agencies for the programs and the supplementary schedules may not agree because of accruals which would be included in the next report filed with the agencies, matching requirements not included in the Schedule and due to different program year ends.

4. ELECTION TO USE 10% DE MINIMUS INDIRECT COST RATE

The Academy’s grant agreements do not allow use of indirect cost rate and hence, the Academy did not use 10% de minimum indirect cost rate.

5. COMMITMENTS AND CONTINGENCIES

Federal grants received by the Academy are subject to review and audit by grantor agencies. The Academy’s management believes that the results of such audits will not have a material effect on the Schedule.

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED August 31, 2016

PART I: SUMMARY OF AUDITOR'S RESULTS

Financial Statement Section

- | | |
|---|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a) Material weakness identified? | No |
| b) Significant deficiencies identified, which are not considered to be material weaknesses? | No |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards Section

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a) Material weakness identified? | No |
| b) Significant deficiencies identified, which are not considered to be material weaknesses? | No |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed, which are required to be reported in accordance with 2 CFR Section 200.516(a)? | No |
| 4. Identification of major programs: | |

Federal CFDA Number

Name of Federal Program

84.010

ESEA Title I Part A: Improving Basic Education Program

84.010

Title I Focus: 1003 (A) Priority and Focus School Grant

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee under 2 CFR Section 200.520 | Yes |

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED August 31, 2016

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT

STATE COMPLIANCE AND REPORTING REQUIREMENTS

Compliance Requirements on Minimum Allotment Spending

Finding No. 2016 – 001:

Condition: During the course of our audit procedures on PEIMS, it is noted that state funds allotment for individual programs were not expended by the Academy to meet the minimum percentage requirements for program intent codes 24 Compensatory Education Allotment as specified by the Near Final Summary Report.. This is a repeat of finding no. 2015-01 noted in year ended August 31, 2015.

Criteria: *Per near final summary of finances the Academy has to spend at least 52% of Program Intent Code 24 allotted amount if not more. Actual amount spent was 40% of allotment..*

Cause: Management's inability to spend at least minimum amount.

Effect: A minimum amount expected by TEA fund allotment could not be spent and this could potentially lead to less funding in future years.

Recommendation: We recommend that the Academy determine a process for documenting and keeping track of program expenditures to make sure they meet requirements specified by the TEC §12.107 that state and federal funds paid to the charter holder for the operation of the charter be used for the benefit of the student of the charter school and may only be used for the specified purposes..

Views of Responsible Officials and Planned Corrective Actions: *Management understands the minimum spending requirements for the program intent codes, as specified in by the TEC 12.107. Management believes that adding program intent codes to the District management monthly reporting assisted in keeping track of the minimum spending requirements. Management believes in conservative spending and is actively seeking programs to enhance student learning that qualify for expenditure under Program Intent Code 24.*

Implementation Date: February 1, 2017

Responsible Person: Superintendent

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED August 31, 2016

STATE COMPLIANCE AND REPORTING REQUIREMENTS

Compliance Requirements on Board Training

Finding No. 2016 – 002:

Condition: During the course of our audit, we noted that one of the Academy’s board members did not get any instructional training during current fiscal year as required by the State of Texas legislation described below. This is a repeat of finding no. 2015-02 noted in year ended August 31, 2015.

Criteria: Texas Administrative Code (TAC), Title 19, Rule 100.1102 specifies the minimum requirements for board training that members of the governing body of a charter holder or a member of the governing body of a charter school must complete training course consisting of 12 instructional hours, excluding breaks, administrative tasks, and other non-instructional time, within one calendar year of appointment or election to the governing body. Members who serve on the board must receive 6 hours of training annually after receiving the initial 12 hours by a registered course provider.

Cause: One of the board member did not have time to complete the training.

Effect: Noncompliance with TAC, Title 19, Rule 100.1102.

Recommendation: We recommend that the Academy implement a policy requiring its board members to meet minimum training requirements required by the TEA.

Views of Responsible Officials and Planned Corrective Actions: *Management understands the requirement for training is required for each board member to complete annually. Management has identified an external board trainer to conduct quarterly trainings to bring board members into compliance with TAC, Title 19, Rule 100.1102. Board training will be completed no later than March 2017.*

Implementation Date: February 15, 2017

Responsible Person: Superintendent

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED August 31, 2016

PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any abuse findings involving federal awards that are material to a major program.

No findings were noted.

ACADEMY OF ACCELERATED LEARNING, INC.
(A Texas Nonprofit Organization)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED August 31, 2016

No. 2015-001: ***Compliance with Laws & Regulations (Spend minimum % of requirements)***

Condition: During the course of our audit, we found that the Academy failed to expend the minimum percentage of requirements for program intent codes.

Recommendation: We recommend that the Academy determine a process for documenting and keeping track of program expenditures to make sure they meet requirements specified by the TEC §12.107 that state and federal funds paid to the charter holder for the operation of the charter be used for the benefit of the student of the charter school and may only be used for the specified purposes.

Current Status: The finding is not cleared and repeated in the current fiscal year as item number 2016-001.

No. 2015-002: ***Compliance with Laws & Regulations (Board Training)***

Condition: During the course of our audit procedures on board trainings, we noted that one board member of the Academy received no training during CY.

Recommendation: We recommend the Academy establish and document in its policies and procedures, training requirement for board members and track compliance with those requirements. It should also ensure that the board training meet the required training hours and retain documentation to demonstrate compliance with such requirement.

Current Status: The finding is not cleared and repeated in the current fiscal year as item number 2016-002.