

**ACADEMY OF ACCELERATED
LEARNING, INC.**

(A Texas Nonprofit Organization)

**ANNUAL FINANCIAL AND COMPLIANCE
AUDIT AND
INDEPENDENT AUDITORS' REPORT**

Year Ended August 31, 2014

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

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ACADEMY OF ACCELERATED LEARNING, INC.

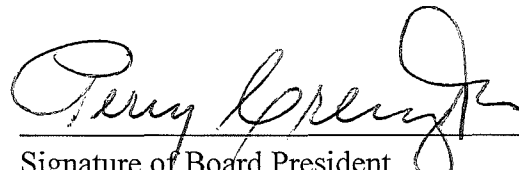
(Federal Employer Identification Number: 31-1583056)

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, 2014, at a meeting of the governing body of the charter holder on the 21st day of January, 2015.



Signature of Board Secretary



Signature of Board President



INDEPENDENT AUDITORS' 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, 2014, 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.

Auditors' 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, 2014, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information on pages 14 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 25, 2015, 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.



Houston, Texas
January 25, 2015

Financial Statements

ACADEMY OF ACCELERATED LEARNING, INC.

**STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2014**

ASSETS

Current Assets:

Cash	\$ 1,938,670
Grants receivable	142,388
Accounts receivable	8,071
Notes receivable from related parties	1,533,336
Other assets	1,000
Total current assets	<u>3,623,465</u>

Noncurrent Assets:

Property and equipment, net	<u>74,180</u>
Total noncurrent assets	<u>74,180</u>
TOTAL ASSETS	<u><u>\$ 3,697,645</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 55,327
Payroll and related liabilities	515,952
Accrued expenses and other payables	<u>86,147</u>
Total current liabilities	<u>657,426</u>
TOTAL LIABILITIES	<u>657,426</u>

Net Assets:

Unrestricted	952,966
Temporarily restricted	<u>2,087,253</u>
TOTAL NET ASSETS	<u>3,040,219</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,697,645</u></u>

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

ACADEMY OF ACCELERATED LEARNING, INC.

**STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Local support:			
5729 Other local income and grants	\$ 167,840	\$ -	\$ 167,840
Total local support	167,840	-	167,840
State program revenues:			
5812 Foundation School Program Entitlements	-	4,941,681	4,941,681
5811 Textbooks and Kindergarten Materials	-	15,856	15,856
Total state program revenues	-	4,957,537	4,957,537
Federal program revenues:			
5830 Fruits and vegetable program	-	16,844	16,844
5929 Grade school lunch match grant	-	2,887	2,887
5921 School breakfast program	-	123,905	123,905
5922 National school lunch program	-	329,072	329,072
5929 ESEA Title I Part A	-	244,893	244,893
5929 ESEA Title I - Priority Focus Grant	-	17,633	17,633
5929 ESEA Title II Part A	-	27,192	27,192
5929 ESEA Title III Part A	-	28,799	28,799
5929 ESEA Title III Summer LEP	-	3,339	3,339
5929 IDEA PART B Formula	-	74,041	74,041
5929 IDEA B Preschool	-	1,446	1,446
Total federal program revenues	-	870,051	870,051
Net assets released from restrictions:			
Restrictions satisfied by payments	5,392,556	(5,392,556)	-
TOTAL REVENUES	\$ 5,560,396	\$ 435,032	\$ 5,995,428

Continued

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

ACADEMY OF ACCELERATED LEARNING, INC.

**STATEMENT OF ACTIVITIES, CONTINUED
YEAR ENDED AUGUST 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
EXPENSES			
11 Instruction	\$ 2,486,662	\$ -	\$ 2,486,662
12 Instructional resources and media services	30,230	-	30,230
13 Curriculum development and instructional staff development	36,054	-	36,054
23 School leadership	177,770	-	177,770
31 Guid., counseling and evaluation services	15,948	-	15,948
33 Health services	34,365	-	34,365
34 Student (pupil) transportation	17,914	-	17,914
35 Food services	410,103	-	410,103
36 Cocurricular/extracurricular activities	5,686	-	5,686
41 General administration	931,245	-	931,245
51 Facilities maintenance and operations	1,403,089	-	1,403,089
52 Security and monitoring services	<u>11,330</u>	<u>-</u>	<u>11,330</u>
TOTAL EXPENSES	<u>5,560,396</u>	<u>-</u>	<u>5,560,396</u>
CHANGE IN NET ASSETS	-	435,032	435,032
NET ASSETS, BEGINNING OF YEAR	<u>952,966</u>	<u>1,652,221</u>	<u>2,605,187</u>
NET ASSETS, END OF YEAR	<u>\$ 952,966</u>	<u>\$ 2,087,253</u>	<u>\$ 3,040,219</u>
			<i>Concluded</i>

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

ACADEMY OF ACCELERATED LEARNING, INC.

**STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES

State grant receipts	\$ 4,990,338
Federal grant receipts	784,585
Receipts from miscellaneous sources	135,650
Payments to vendors for goods and services rendered	(2,249,224)
Payments to or on behalf of employees for services rendered	<u>(2,911,928)</u>
Net cash provided by operating activities	<u>749,421</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	<u>(11,755)</u>
Net cash used in investing activities	<u>(11,755)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loans to related parties	<u>(1,500,000)</u>
Net cash used in financing activities	<u>(1,500,000)</u>

NET DECREASE IN CASH	(762,334)
CASH, BEGINNING OF YEAR	<u>2,701,004</u>
CASH, END OF YEAR	<u><u>\$ 1,938,670</u></u>

**Reconciliation of change in net assets to net cash provided
by operating activities:**

Change in net assets	<u>\$ 435,032</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	23,045
Increase in grants receivable	(52,665)
Increase in related party receivable	(33,336)
Decrease in other assets	1,146
Decrease in accounts payable	(11,560)
Increase in payroll and related liabilities	394,853
Decrease in accrued expenses	<u>(7,094)</u>
Total adjustments	<u>314,389</u>
Net cash provided by operating activities	<u><u>\$ 749,421</u></u>

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

**Notes To The
Financial Statements**

ACADEMY OF ACCELERATED LEARNING, INC.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2014

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. 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 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.

ACADEMY OF ACCELERATED LEARNING, INC.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2014

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. Balance in unrestricted net assets as of August 31, 2014 amounted to \$952,966.

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. The Academy had a balance of \$2,087,253 in its temporarily restricted net assets account as of August 31, 2014.

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, 2014.

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.

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.

Cash and Cash Equivalents

For financial statement purposes, the Academy considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents. The Academy did not have any cash equivalents as of August 31, 2014.

Grants Receivable

Grants receivable represent pending reimbursements of program expenses incurred and billed as of August 31, 2014 and expected to be received from the funding sources in the

ACADEMY OF ACCELERATED LEARNING, INC.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2014

subsequent year. Management considers grants receivable as of August 31, 2014 in the amount of \$142,388 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, 2014.

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, 2014. 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 2011 through 2013 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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 functional allocations of expenses and the useful lives used for estimating annual depreciation and amortization amounts for property and equipment.

ACADEMY OF ACCELERATED LEARNING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014**

New Accounting Pronouncements

In October 2012, the FASB issued Accounting Standards Update (ASU) 2012-05 – Statement of Cash Flows (Topic 230), Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows, which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated assets that upon receipt were directed without any limitations for sale imposed by the not-for-profit entity and were converted nearly immediately into cash. This update was adopted for the Academy's 2014 annual financial statements and the implementation of the new standard had no effect on the current year financial statements.

In April 2013, the FASB issued Accounting Standards Update (ASU) 2013-06 – Not-for-Profit Entities (Topic 958), Services Received from Personnel of an Affiliate, which requires a not-for-profit entity to recognize all services received from personnel of an affiliate at either (a) the cost recognized by the affiliate for the personnel providing that service or (b) the fair value of that service. If the recipient not-for-profit entity is required to provide a performance indicator, the entity should report an increase in net assets associated with the services rendered as an equity transfer. This update will be effective for the Academy's 2015 annual financial statements and management does not anticipate that this update will significantly affect the Academy's financial statements.

2. CONCENTRATION OF CREDIT AND BUSINESS RISKS

The Academy maintains cash balances with financial institutions in the state. As of August 31, 2014, 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 \$1,625,407. Management believes that this credit risk exposure was mitigated by the financial strength of the banking institutions in which the deposits were held.

The State of Texas and Federal Government provided 83% and 15%, respectively, of the Academy's total revenues for the year ended August 31, 2014.

3. PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2014, were as follows:

	<u>Amount</u>
Computer and equipment	\$ 53,533
Furniture and fixtures	180,824
Leasehold improvements	263,375
	<u>497,732</u>
Less: Accumulated depreciation and amortization	<u>(423,552)</u>
Property and equipment, net	<u>\$ 74,180</u>

ACADEMY OF ACCELERATED LEARNING, INC.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014**

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, 2014 was \$23,045.

4. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2014, the Academy had temporarily restricted net assets of \$2,087,253 that consisted of the following, by program:

<u>Program</u>	<u>Amount</u>
Title I, Part A - Regular	\$ 40,880
IDEA-B Sp. Ed. - Regular	3,559
IDEA B Formula - ARRA	20,832
National School Breakfast and Lunch program	104,638
Title III Part A	5,235
Title III Summer LEP	385
Title I Part A - ARRA	2,078
Textbook & Kindergarten Materials	1,643
Foundation School Program and other State Aid	1,908,003
	<u>\$ 2,087,253</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, 2014 was \$894,832.

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

<u>Year Ending August 31,</u>	<u>Amount</u>
2015	\$ 833,247
2016	848,272
2017	531,348
2018	547,288
2019	563,708
2020 and Thereafter	580,619
	<u>\$ 3,904,482</u>

ACADEMY OF ACCELERATED LEARNING, INC.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2014

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.

7. PENSION PLAN OBLIGATIONS

Plan Description

The Academy contributes to the Teacher Retirement System of Texas (the “System”), 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 provides service retirement and disability retirement benefits, and death benefits to its members and beneficiaries. The System operates under the authority of provisions contained primarily in 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's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

Funding Policy

Under provisions in State law, the System's members are required to contribute 6.40% of their annual covered salary and the State of Texas contributes an amount equal to 6.00% of the Academy's covered payroll. The Academy's employees' contributions to the System for the year ended August 31, 2014 were \$131,482, equal to the required contributions for the year based on the above contribution rate.

8. HEALTH CARE COVERAGE

During the year ended August 31, 2014, employees of the Academy were covered by a Health Insurance Plan (the “Plan”). The Academy contributed, depending on the coverage option selected by employees, \$325 and \$338 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. RELATED PARTY TRANSACTIONS

The Academy employed the legal services of one of its board members, a related party, to represent the Academy in an arbitration claim matter brought against the Academy during fiscal year 2012. The arbitration matter was concluded during fiscal year ended August 31,

ACADEMY OF ACCELERATED LEARNING, INC.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2014

2013. The Academy paid the board member the sum of \$18,750 in connection with the arbitration matter and other legal services during the fiscal year ended August 31, 2014.

In November 2013, the Board of Directors approved the retirement of the Superintendent of the Academy. The Board also approved a retirement benefits package of \$600,000 for the Superintendent, to be paid in three equal installments of \$200,000. The first installment of \$200,000 was paid on December 5, 2013, while the remaining balance of \$400,000 to be paid within two years has been accrued as a liability in the accompanying financial statements. The Texas Education Agency is currently reviewing the details of this transaction to determine whether the payment and accrual are allowable expenses in accordance with the requirements of TEC 12.107.

Between March 4, 2014 and April 8, 2014, the Academy provided a secured short-term working capital loan to Energized for Excellence Academy, Inc. ("Energized") of \$1,160,000; Energized for STEM Academy, Inc. ("ESTEM") of \$220,000; and Inspired for Excellence Academy, Inc. ("Inspired") of \$120,000; collectively (the "Academies"). The notes were secured against real properties and receivables of the Academies. The notes bear interest at the rate of 5% per annum. The maturity date of the respective notes was October 1, 2014. The Academies are related non-profit corporations managed and operated by the spouse of the Academy's former Superintendent. The decisions to make the loans were made during the duly called meeting(s) of the board of directors where a quorum was present. After board consideration and deliberation, the board determined that the loans were beneficial to the Academy in that the interest charged exceeded the interest that the Academy was earning through its deposits. As fully described in Note 11, the notes including principal and accrued interest were repaid on September 30, 2014.

10. CHARTER HOLDER OPERATIONS

The charter holder operated only a single charter in fiscal year 2014 and did not conduct any other charter or non-charter activities. The charter holder license expired on July 31, 2013. The charter holder submitted its charter renewal application to 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.

11. SUBSEQUENT EVENTS

On September 30, 2014, Energized repaid its loan of \$1,160,000, plus interest in the amount of \$30,906; ESTEM repaid its loan of \$220,000, plus interest in the amount of \$6,225; and Inspired repaid its loan of \$120,000, plus interest in the amount of \$3,430.

Management has evaluated subsequent events through January 25, 2015. 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.

(A Texas Nonprofit Organization)

**SCHEDULE OF EXPENSES
YEAR ENDED AUGUST 31, 2014**

Expenses

6100	Payroll costs	\$ 3,323,242
6200	Professional and contracted services	1,493,548
6300	Supplies and materials	608,210
6400	Other operating costs	<u>135,396</u>
	Total expenses	<u>\$ 5,560,396</u>

ACADEMY OF ACCELERATED LEARNING, INC.

(A Texas Nonprofit Organization)

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2014

		Ownership Interest		
		Local	State	Federal
1535	Computer and equipment	\$ -	\$ 53,533	\$ -
1539	Furniture and fixtures	-	180,824	-
1540	Leasehold improvements	-	263,375	-
Total property and equipment at cost		<u>\$ -</u>	<u>\$ 497,732</u>	<u>\$ -</u>

ACADEMY OF ACCELERATED LEARNING, INC.

**BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2014**

		Original/Final Budgeted Amounts	Actual Amounts	Variance from Final Budget	% Variance	
REVENUES						
Local support:						
5729	Other local income and grants	\$ 154,100	\$ 167,840	\$ 13,740	9%	
State program revenues:						
5812	Foundation School Program Entitlements	4,900,500	4,941,681	41,181	-1%	
5811	Textbooks and Kindergarten Materials	16,000	15,856	(144)	1%	
	Total state program revenues	4,916,500	4,957,537	41,037		
Federal program revenues:						
5830	Fruits and vegetable program	15,500	16,844	1,344	9%	
5929	Grade school lunch match grant	2,850	2,887	37	1%	
5921	School breakfast program	125,000	123,905	(1,095)	-1%	
5922	National school lunch program	328,000	329,072	1,072	-	
5929	ESEA Title I Part A	190,799	244,893	54,094	28%	(1)
5929	ESEA Title I - Priority Focus Grant	20,000	17,633	(2,367)	-12%	(2)
5929	ESEA Title II Part A	27,301	27,192	(109)	-	
5929	ESEA Title III Part A	40,692	28,799	(11,893)	-29%	(3)
5929	ESEA Title III Summer LEP	3,339	3,339	-	-	
5929	IDEA Part B Formula	73,918	74,041	123	-	
5929	IDEA B Preschool	1,446	1,446	-	-	
	Total federal program revenues	828,845	870,051	41,206		
TOTAL REVENUES		\$ 5,899,445	\$ 5,995,428	\$ 95,983		

Continued

ACADEMY OF ACCELERATED LEARNING, INC.

BUDGETARY COMPARISON SCHEDULE (CONTINUED)

YEAR ENDED AUGUST 31, 2014

	Original/Final Budgeted Amounts	Actual Amounts	Variance from Final Budget	% Variance
EXPENSES				
11 Instruction	\$ 2,573,024	\$ 2,486,662	\$ 86,362	3%
12 Instructional resources and media services	31,000	30,230	770	2%
13 Curriculum development and instructional staff development	37,568	36,054	1,514	4%
23 School leadership	185,000	177,770	7,230	4%
31 Guid., counseling and evaluation services	16,568	15,948	620	4%
33 Health services	36,000	34,365	1,635	5%
34 Student (pupil) transportation	18,500	17,914	586	3%
35 Food services	420,000	410,103	9,897	2%
36 Cocurricular/extracurricular activities	6,000	5,686	314	5%
41 General administration	910,000	931,245	(21,245)	-2%
51 Facilities maintenance and operations	1,450,000	1,403,089	46,911	3%
52 Security and monitoring services	11,500	11,330	170	1%
TOTAL EXPENSES	5,695,160	5,560,396	134,764	
CHANGE IN NET ASSETS	204,285	435,032	230,747	
NET ASSETS, BEGINNING OF YEAR		2,605,187		
NET ASSETS, END OF YEAR		\$ 3,040,219		

Explanation Unaudited:

- (1) Additional funding received was not used in the current year. Balance will be rolled forward to fiscal year 2015.
- (2) Funding was provided in late January 2014, which is after the fall semester. Balance will be rolled forward to fiscal year 2015.
- (3) Additional funding was provided during the year that caused the increase in revenue above the budget. Balance will be rolled forward to fiscal year 2015.

Compliance and Internal Control



**INDEPENDENT AUDITORS' 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, 2014, 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 25, 2015.

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 no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Academy in a separate letter dated January 25, 2015.

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.

A handwritten signature in blue ink, appearing to read "McConnell & Sons LLP".

Houston, Texas
January 25, 2015



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 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, 2014. 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.

Auditors' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Houston, Texas
January 25, 2015

ACADEMY OF ACCELERATED LEARNING, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2014**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Pass-Through Texas Education Agency			
ESEA Title I Part A: Improving Basic Education Program	84.010	14610101101810	\$ 204,013
Title I Focus 1003(A) Priority and Focus School Grant	84.010	14610112101810002	17,633
Special Education – Grants to State IDEA Part B	84.027	146600011018106600	70,482
Special Education – Preschool Grants IDEA Preschool	84.173	146610011018106610	1,446
ESEA Title II Part A: Improving Teacher Quality Program	84.367	14694501101810	27,192
ESEA Title III Part A: English Language Acquisition Program	84.365	14671001101810	28,799
ESEA Title III – Summer LEP	84.369	69551302	<u>7,755</u>
Total U.S. Department of Education			<u>357,320</u>
U.S. Department of Agriculture			
Child Nutrition Cluster:			
Pass-Through State Department of Education			
Pass-Through Texas Education Agency			
School Breakfast Program	10.553	71401401	137,270
National School Lunch Program	10.555	71301401	<u>286,062</u>
			<u>423,332</u>
Pass-Through Texas Department of Agriculture			
Fresh Fruit and Vegetable Program	10.582	CEID#00479	17,270
Total U.S. Department of Agriculture			<u>440,602</u>
U.S. Department of Health and Human Services			
Pass-Through 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	<u>50,000</u>
Total U.S. Department of Health and Human Services			<u>50,000</u>
Total Expenditures of Federal Awards			<u><u>\$ 847,922</u></u>

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, 2014

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, 2014. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. RECONCILIATION TO FINANCIAL STATEMENTS

The following reconciles federal award expenditures as included in the accompanying Schedule to the expenditures reported in the financial statements of the Academy for the year ended August 31, 2014:

	<u>Amount</u>
Total expenditures per the statement of activities	\$5,560,396
Less: Non-federal expenditures	4,689,429
Depreciation and amortization	23,045
Total Federal Expenditures per the Schedule	<u>\$847,922</u>

4. 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.

ACADEMY OF ACCELERATED LEARNING, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2014

PART 1: SUMMARY OF AUDITOR'S RESULTS

Financial Statement Section

- | | |
|---|------------|
| 1. Type of auditors' 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 auditors' report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed, which are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 4. Identification of major programs: | |

Federal CFDA Number

Name of Federal Program

Child Nutrition Cluster:

10.553

School Breakfast Program

10.555

National School Lunch Program

- | | |
|--|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 6. Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530 | Yes |

ACADEMY OF ACCELERATED LEARNING, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2014**

PART II: FINDINGS - FINANCIAL STATEMENT AUDIT

This section identifies the significant deficiencies, material weaknesses, and instances of fraud, illegal acts, violations of provisions of contract and grant agreements, and abuse related to the financial statement for which *Government Auditing Standards* require reporting in an OMB Circular A-133 audit.

No findings were noted.

ACADEMY OF ACCELERATED LEARNING, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2014**

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.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2014**

There were no prior year audit findings to report on.