

BTX SCHOOLS, INC.

FINANCIAL STATEMENTS

Period from Inception (January 17, 2012) to June 30, 2014

Randy Walker & Co., Certified Public Accountants

BTX SCHOOLS, INC.
FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

Table of Contents

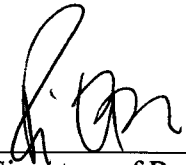
Certificate of Board	1
Independent Auditor's Report	2-3
Financial Statement Section:	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7-12
Supplemental Information Section:	
Schedule of Expenses	13
Schedule of Capital Assets	14
Budgetary Comparison Schedule	15
Notes to Budgetary Comparison Schedule	16
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government</i> <i>Auditing Standards</i>	17-18

BTX SCHOOLS, INC.

Federal Employer Identification Number: 45-4269957

Certificate of Board

We, the undersigned, certify that the attached annual financial reports of the above-named charter holder were reviewed and (check one) X approved disapproved for the year ended June 30, 2014, at a meeting of the Board of Directors of such charter holder on the 19th day of November , 2014.



Signature of Board Secretary



Signature of Board President

If the Board of Directors disapproved the auditor's report, the reason(s) for disapproving it is (are):
(attach list as necessary)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
BTX Schools, Inc.
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying statement of financial position of BTX Schools, Inc. (a nonprofit organization) as of June 30, 2014, the related statements of activities and cash flows for the period from inception (January 17, 2012) to June 30, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BTX Schools, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the period from inception (January 17, 2012) to June 30, 2014 in conformity with accounting principles generally accepted in the United States of America.

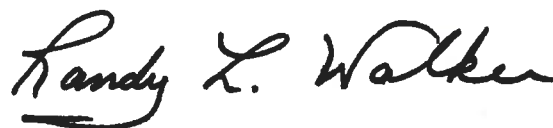
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules on pages 13-16 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014 on pages 17-18, on our consideration of BTX Schools, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 BTX Schools, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a large, sweeping initial "R".

San Antonio, Texas
November 19, 2014

BTX SCHOOLS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

Cash and Cash Equivalents	\$ 819,364
Due from Texas Education Agency	503,406
Due from Related Party	339,928
Other Receivables	25,341
Prepaid Expenses	21,525
Other Assets	7,913
	<hr/>
TOTAL ASSETS	\$ 1,717,477
	<hr/> <hr/>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts Payable	\$ 247,264
Accrued Expenses	165,477
Other Liabilities	74,578
Deferred Revenue	750
Refundable Advance	496,562
	<hr/>
Total Liabilities	984,631
	<hr/>
Net Assets	
Unrestricted	413,242
Temporarily Restricted	319,604
	<hr/>
Total Net Assets	732,846
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 1,717,477
	<hr/> <hr/>

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

BTX SCHOOLS, INC.
STATEMENT OF ACTIVITIES
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Local Support:			
5744 Donations	\$ 1,188,190	\$ 158,577	\$ 1,346,767
5749 Athletic Activities	99,224	-	99,224
5753 Extracurricular Activities	104,346	-	104,346
Total Local Support	1,391,760	158,577	1,550,337
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	3,250,239	3,250,239
5820 State Program Revenues Distributed by Texas Education Agency	-	36,671	36,671
Total State Program Revenues	-	3,286,910	3,286,910
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency	-	50,831	50,831
Total Federal Program Revenues	-	50,831	50,831
Net Assets Released From Restrictions			
Restrictions Satisfied By Payments	3,176,714	(3,176,714)	-
TOTAL REVENUE AND OTHER SUPPORT	4,568,474	319,604	4,888,078
EXPENSES			
11 Instruction	1,795,335	-	1,795,335
13 Curriculum Development and Instructional Staff Development	48,583	-	48,583
23 School Leadership	455,806	-	455,806
31 Guidance, Counseling, and Evaluation Services	16,972	-	16,972
36 Extracurricular Activities	87,582	-	87,582
41 General Administration	1,176,696	-	1,176,696
51 Plant Maintenance and Operations	523,739	-	523,739
53 Data Processing	50,519	-	50,519
TOTAL EXPENSES	4,155,232	-	4,155,232
CHANGE IN NET ASSETS	413,242	319,604	732,846
NET ASSETS, Beginning of Period	-	-	-
NET ASSETS, End of Period	\$ 413,242	\$ 319,604	\$ 732,846

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

BTX SCHOOLS, INC.
STATEMENT OF CASH FLOWS
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in Net Assets From Operations	\$ 732,846
Increase in Assets:	
Due from Texas Education Agency	(503,406)
Due from Related Party	(339,928)
Other Receivables	(25,341)
Prepaid Expenses	(21,525)
Other Assets	(7,913)
Increase in Liabilities:	
Accounts Payable	247,264
Accrued Expenses	165,477
Other Liabilities	74,578
Deferred Revenue	750
Refundable Advance	496,562
Net Cash Provided By Operating Activities	<u>819,364</u>
Net Increase in Cash and Cash Equivalents	819,364
Cash and Cash Equivalents, Beginning of Period	<u>-</u>
Cash and Cash Equivalents, End of Period	<u><u>\$ 819,364</u></u>

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

BTX SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity and Corporate Operations

BTX Schools, Inc. (BTX) is a not-for-profit organization incorporated in the State of Texas in 2012. BTX is governed by a Board Directors comprised of four members. The Board of Directors is selected pursuant to the bylaws of BTX and has the authority to make decisions, appoint the chief executive officer of BTX, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of BTX. BTX's sole member/owner is BASIS Schools, Inc. (BSI), an Arizona not-for-profit organization formed in fiscal year 1998-99 to provide educational services to students in fifth through twelfth grades.

In 2013, the State Board of Education of the State of Texas granted BTX 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 charter application Contract for Charter, BTX Schools, Inc. was opened for the academic year 2013-2014. It was approved to provide educational services to students in fifth through twelfth grades, and its Board of Directors governs its programs, services, activities, and functions.

As of June 30, 2014, BTX operates one campus location, BASIS San Antonio, which provides educational services to students in fifth through eighth grades. BTX intends to add a grade level each year beginning with the academic year 2014-2015. Since BTX receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Basis of Presentation

The financial statements of BTX have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The more significant of BTX's accounting policies are described below:

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with GAAP.

BTX is required to report information regarding its financial position and activities according to the absence or existence and nature of donor-imposed restrictions as follows:

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

Temporarily Restricted - Temporarily restricted net assets are those resources, subject to donor-imposed restrictions, that will be satisfied by the actions of BTX and/or the passage of time.

BTX SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

Note 1 - Nature of Business and Significant Accounting Policies (continued)

Basis of Presentation (continued)

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 - Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund annual operations. As of June 30, 2014, BTX had no permanently restricted net assets.

Grant Funds

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require a refund of all or part of the unused amount.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

BTX Schools, Inc. is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

For financial statement purposes, BTX considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

Contributions

BTX accounts for contributions 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.

BTX SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

Note 2 - Due from State Government

At June 30, 2014, BTX had \$503,406 in receivables due from Texas Education Agency (TEA) related to various state grants and Foundation School Program revenue. All amounts receivable are due in less than one year and are deemed by management to be fully collectible; therefore, no allowance for uncollectible accounts is considered necessary.

Note 3 - Grant Commitments

During the period from inception (January 17, 2012) to June 30, 2014, BTX was awarded unrestricted conditional multiyear grants from two foundations totaling \$3,000,000. As of June 30, 2014, the amount not yet received under these grants was \$1,950,000, collectively. Based on the terms of the grant agreements, the grants are not guaranteed and are contingent upon BTX meeting certain conditions in order to receive the funds. Therefore, a receivable for the remaining portion of these grants is not recorded in the financial statements.

Furthermore, BTX was awarded a restricted conditional grant from a foundation totaling \$1,250,000 for new school expansion. BTX received \$625,000 of the grant in February 2014, of which \$496,562 had not been spent as of June 30, 2014. Under the terms of the grant agreement, any unspent funds must be returned to the grantor in the event the expansion campaign is cancelled. Therefore, the unspent amount is reflected as a refundable advance (liability) in the statement of financial position. Based on the terms of the grant agreement, the grant is not guaranteed and is contingent upon BTX meeting certain conditions in order to receive the funds. Therefore, a receivable for the remaining portion of this grant is not recorded in the financial statements.

Note 4 - Services Agreement

In June 2013, BTX entered into a services agreement with BASIS Educational Group (BEG), whereby BEG provides various services to BTX related to the development and operation of BTX's charter schools. These services include management services, operational services, and accounts payable services. The agreement commenced on July 1, 2013 for one year and is subject to annual renewal upon approval by BTX and BEG. BEG charges a fee to BTX for these services based on a percentage of BTX's total revenues. Total expense for these services was \$854,797 during the period from inception (January 17, 2012) to June 30, 2014.

Furthermore, the payroll costs (i.e., wages, salaries, benefits, payroll taxes, etc.) for charter school staff and other personnel are paid by BEG and then reimbursed by BTX. These individuals are considered leased employees. Their payroll costs are treated as pass-through expenses and are not covered by BEG's service fee. Total payroll costs related to leased employees amounted to \$1,957,785 during the period from inception (January 17, 2012) to June 30, 2014.

BTX SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

Note 5 - Commitments and Contingencies

BTX 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 TEA and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by BTX have complex compliance requirements, and, should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by TEA or the grantor agency.

Note 6 - Related Party Transactions

In April 2013, BTX entered into a facilities lease agreement with BSI, a related party, for the property occupied by the BASIS San Antonio campus. The lease expires on June 30, 2048 with an option to renew for an additional ten-year period thereafter. The monthly base rent varies per fiscal year. Rent expense related to this lease was \$318,849 during the period from inception (January 17, 2012) to June 30, 2014.

The following is a schedule of the operating lease obligations subsequent to June 30, 2014:

Year Ending June 30,	
2015	\$ 587,100
2016	727,100
2017	717,300
2018	718,900
2019	719,900
Thereafter	<u>20,816,575</u>
Total	<u>\$ 24,286,875</u>

As of June 30, 2014, BTX had a receivable from BSI of \$339,928 for governmental grant funds and overpayment of facilities rent. BTX also had a payable to BSI of \$73,771 as of June 30, 2014. The payable is reflected in other liabilities on the statement of financial position.

Note 7 - Regulated Industry

A portion of BTX's activities and revenues are a result of contracts with TEA. BTX's operations are concentrated in the education field. As such, BTX operates in a heavily regulated environment. The operations of BTX are subject to administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, TEA. Such administrative directives, rules, and regulations are subject to change by an act of Congress, an act of the state legislature, or an administrative change mandated by TEA. Funding may be changed or decreased as a result of the above legislative or administrative changes.

BTX SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

Note 8 - Fair Value of Financial Instruments

BTX adopted the provisions of ASC 820, “*Fair Value Measurements and Disclosures*” (formerly SFAS 157). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, and establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The adoption of ASC 820 did not affect BTX’s financial position or results of operations. The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority.
- Level 2 valuations are based on quoted prices in markets that are not active.
- Level 3 valuations are based on inputs that are unobservable and supported by little or no market activity.

BTX has no Level 2 or Level 3 assets or liabilities.

BTX’s financial instruments include cash and cash equivalents, receivables due from Texas Education Agency, other receivables, prepaid expenses, other assets, accounts payable, accrued expenses, and deferred revenue. The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Note 9 - Temporarily Restricted Net Assets

At June 30, 2014, BTX’s temporarily restricted net assets are for the following purposes:

Foundation School Program	\$ 255,779
Start-Up Grant	3,575
Annual Teacher Fund (Teacher Bonuses)	<u>60,250</u>
Total	<u>\$ 319,604</u>

Note 10 - Concentration of Credit Risk

BTX maintains three cash accounts at one financial institution. Cash account balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2014, uninsured cash account balances totaled \$562,780, not including reconciling items. Subsequent to the fiscal year end, management began the process of securing a collateralization agreement with the financial institution that will cover any balances in excess of the FDIC limit.

BTX SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

Note 11 - Subsequent Event

In August 2014, BTX opened a second campus, BASIS San Antonio North. This campus provides educational services to students in fifth through eighth grades.

BTX has evaluated subsequent events through November 19, 2014, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

BTX SCHOOLS, INC.
SCHEDULE OF EXPENSES
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

Expenses

6100	Payroll Costs	\$ 1,991,640
6200	Professional and Contracted Services	1,458,461
6300	Supplies and Materials	353,368
6400	Other Operating Costs	<u>351,763</u>
	Total Expenses	\$ <u>4,155,232</u>

See independent auditor's report.

BTX SCHOOLS, INC.
SCHEDULE OF CAPITAL ASSETS
JUNE 30, 2014

Capital assets acquired with public funds, which constitute public property pursuant to Chapter 12 of the Texas Education Code, are as follows:

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ 819,364	\$ -	\$ -
Total Capital Assets	\$ 819,364	\$ -	\$ -

See independent auditor's report.

BTX SCHOOLS, INC.
BUDGETARY COMPARISON SCHEDULE
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES AND OTHER SUPPORT				
Local Support:				
5744 Donations	\$ 1,153,438	\$ 1,153,438	\$ 1,346,767	\$ 193,329
5749 Athletic Activities	71,400	71,400	99,224	27,824
5753 Extracurricular Activities	71,400	71,400	104,346	32,946
Total Local Support	<u>1,296,238</u>	<u>1,296,238</u>	<u>1,550,337</u>	<u>254,099</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,264,865	3,264,865	3,250,239	(14,626)
5820 State Program Revenues Distributed by Texas Education Agency	-	36,671	36,671	-
Total State Program Revenues	<u>3,264,865</u>	<u>3,301,536</u>	<u>3,286,910</u>	<u>(14,626)</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	44,880	44,880	50,831	5,951
Total Federal Program Revenues	<u>44,880</u>	<u>44,880</u>	<u>50,831</u>	<u>5,951</u>
TOTAL REVENUE AND OTHER SUPPORT	<u>4,605,983</u>	<u>4,642,654</u>	<u>4,888,078</u>	<u>245,424</u>
EXPENSES				
11 Instructional	1,782,493	1,782,493	1,795,335	(12,842)
13 Curriculum Development and Instructional Staff Development	66,886	66,886	48,583	18,303
23 School Leadership	450,808	450,808	455,806	(4,998)
31 Guidance, Counseling and Evaluation Services	48,100	48,100	16,972	31,128
36 Extracurricular Activities	85,680	85,680	87,582	(1,902)
41 General Administration	1,039,052	1,039,052	1,176,696	(137,644) (1)
51 Plant Maintenance and Operations	693,968	693,968	523,739	170,229
53 Data Processing Services	64,020	64,020	50,519	13,501
TOTAL EXPENSES	<u>4,231,007</u>	<u>4,231,007</u>	<u>4,155,232</u>	<u>75,775</u>
CHANGE IN NET ASSETS	<u>374,976</u>	<u>411,647</u>	<u>732,846</u>	<u>321,199</u>
NET ASSETS, Beginning of Period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, End of Period	<u>\$ 374,976</u>	<u>\$ 411,647</u>	<u>\$ 732,846</u>	<u>\$ 321,199</u>

See independent auditor's report.

BTX SCHOOLS, INC.
NOTES TO BUDGETARY COMPARISON SCHEDULE
PERIOD FROM INCEPTION (JANUARY 17, 2012) TO JUNE 30, 2014

(1) Because actual revenues exceeded budgeted amounts, the management service fee was trued up accordingly, with the expense being recorded to function 41. Therefore, the actual expense increased over budget in relationship to the revenues over budget.

See independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
BTX Schools, Inc.
San Antonio, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of BTX Schools, Inc. (BTX), a nonprofit organization, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the period from inception (January 17, 2012) to June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

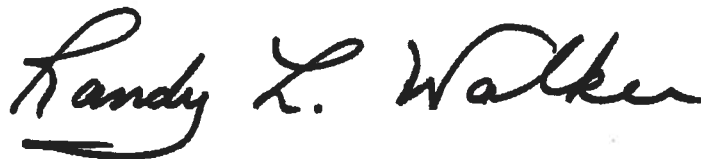
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BTX's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a prominent underline under the first name.

San Antonio, Texas
November 19, 2014