ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS

(A Texas Nonprofit Corporation)

Annual Financial and Compliance Audit

Years Ended August 31, 2016 and 2015

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)
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MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Association for the Advancement of Mexican-Americans

Report on the Financial Statements

We have audited the accompanying financial statements of the Association for the Advancement of Mexican-Americans ("AAMA"), a Texas nonprofit corporation, which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 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.

4828 Loop Central, Suite 1000
Houston., TX 77081
Phone: 713.968.1600
Fax: 713.968.1601

WWW.MCCONNELLJONES.COM

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AAMA as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years 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 supplementary information as listed in the table of contents from pages 24 through 29 is presented for purposes of additional analysis as required by the Texas Education Agency, and is not a required part of the financial statements of AAMA. Similarly, the accompanying schedule of expenditures of federal awards on pages 30 through 31 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statements of AAMA. 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 30, 2016, on our consideration of AAMA'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 AAMA's internal control over financial reporting and compliance.

McCanlis & Jones LLP

Houston, Texas
November 30, 2016

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2016 AND 2015

ASSETS:	2016	2015
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	$ 1,234,410	$ 1,050,440
Cash and cash equivalents, restricted	2,746,777	2,724,862
Certificate of deposit, restricted	253,594	251,058
Grants receivable and reimbursable grant expenses	721,606	730,611
Prepaid expenses	84,484	91,205
Total current assets	5,040,871	4,848,176
NONCURRENT ASSETS:		
Land, property and equipment		
Land (non-depreciable)	175,800	175,800
Building and improvements	14,724,728	14,712,913
Furniture and equipment	2,407,228	2,273,377
Construction in progress	66,415	-
Less: accumulated depreciation	(9,353,574)	(8,802,542)
Land, property and equipment, net	8,020,597	8,359,548
Other assets	18,570	18,445
Total noncurrent assets	8,039,167	8,377,993
TOTAL ASSETS	$ 13,080,038	$ 13,226,169
LIABILITIES & NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable	185,088	147,849
Accrued liabilities	358,986	312,577
Unearned revenue	300,650	281,999
Bonds and notes payable, current portion	148,063	137,968
Liability under an interest rate swap contract, current portion	58,926	75,859
Total current liabilities	1,051,713	956,252
Bonds and notes payable, net of current portion	4,687,845	5,117,844
Liability under an interest rate swap contract, net of curent portion	203,021	337,200
Total noncurrent liabilities	4,890,866	5,455,044
TOTAL LIABILITIES	5,942,579	6,411,296
NET ASSETS:		
Unrestricted	7,062,353	6,731,267
Temporarily restricted	75,106	83,606
TOTAL NET ASSETS	7,137,459	6,814,873
TOTAL LIABILITIES AND NET ASSETS	$ 13,080,038	$ 13,226,169

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

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Federal grants	$ 2,474,173	$ 736,496	$3,210,669
State, city, county, and other school grants	1,300,136	7,135,267	8,435,403
Fundraisers	305,732	-	305,732
Contributions	303,097	4,815	307,912
Property and rental income	1,723,244	-	1,723,244
Net assets released from restrictions	7,885,078	(7,885,078)	-
Other	80,740	-	80,740
TOTAL REVENUE	14,072,200	(8,500)	14,063,700
EXPENDITURES			
Program services:			
Health and human services	2,660,971	-	2,660,971
Educational	9,116,180	-	9,116,180
Total program services	11,777,151	-	11,777,151
Support services:			
Management and general	1,835,028	-	1,835,028
Fundraising activities	128,935	-	128,935
Total support services	1,963,963	-	1,963,963
TOTAL EXPENDITURES	13,741,114	-	13,741,114
CHANGE IN NET ASSETS	331,086	(8,500)	322,586
NET ASSETS, BEGINNING OF YEAR	6,731,267	83,606	6,814,873
NET ASSETS, END OF YEAR	$ 7,062,353	$ 75,106	$7,137,459

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

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Federal grants	$2,185,849	$ 803,728	$ 2,989,577
State, city, county, and other school grants	1,201,485	6,093,053	7,294,538
Fundraisers	396,053	-	396,053
Contributions	297,332	1,355	298,687
Property and rental income	1,496,598	-	1,496,598
Net assets released from restrictions	6,899,023	(6,899,023)	-
Other	246,508	-	246,508
TOTAL REVENUE	12,722,848	(887)	12,721,961
EXPENDITURES			
Program services:			
Health and human services	2,388,906	-	2,388,906
Educational	8,074,240	-	8,074,240
Total program services	10,463,146	-	10,463,146
Support services:			
Management and general	1,814,481	-	1,814,481
Fundraising activities	133,861	-	133,861
Total support services	1,948,342	-	1,948,342
TOTAL EXPENDITURES	12,411,488	-	12,411,488
CHANGE IN NET ASSETS	311,360	(887)	310,473
NET ASSETS, BEGINNING OF YEAR	6,419,907	84,493	6,504,400
NET ASSETS, END OF YEAR	$6,731,267	$ 83,606	$ 6,814,873

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

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS

(A Texas Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2016

	Health and Human Services			Educational				Supporting Services			
	Residential/ Outpatient	Prevention/ Intervention	Sub-Total Health and Human Sevices	George I. Sanchez Houston	Adelante	Sub-Total Educational	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	$ 1,323,526	$ 380,218	$ 1,703,744	$ 4,696,075	$ 661,883	$ 5,357,958	$ 7,061,702	$ 478,196	$ -	$ 478,196	$ 7,539,898
Employee fringe benefits	109,587	36,257	145,844	576,672	33,026	609,698	755,542	34,195	-	34,195	789,737
Payroll taxes	102,150	29,400	131,550	102,455	53,578	156,033	287,583	29,621	-	29,621	317,204
Professional fees and contract services payments	103,455	6,502	109,957	267,693	28,712	296,405	406,362	17,309	127,226	144,535	550,897
Food, clothing and other	31,581	-	31,581	191,798	-	191,798	223,379	-	-	-	223,379
Insurance - other	36,504	19,952	56,456	149,245	22,656	171,901	228,357	6,970	-	6,970	235,327
Equipment rental/maintenance	30,285	5,903	36,188	85,862	8,817	94,679	130,867	300,673	-	300,673	431,540
Rent-office	181,891	54,040	235,931	1,526,256	93,426	1,619,682	1,855,613	15,151	-	15,151	1,870,764
Supplies	74,770	16,011	90,781	313,499	28,609	342,108	432,889	12,962	-	12,962	445,851
Travel/seminars	22,417	11,583	34,000	75,254	5,944	81,198	115,198	4,733	267	5,000	120,198
Utilities	37,879	6,865	44,744	13,500	4,428	17,928	62,672	296,537	-	296,537	359,209
Miscellaneous	15,320	20,149	35,469	82,093	6,561	88,654	124,123	92,546	1,442	93,988	218,111
Interest/bank charges	-	-	-	-	-	-	-	64,969	-	64,969	64,969
Depreciation of property and equipment	2,976	1,750	4,726	69,958	18,180	88,138	92,864	481,166	-	481,166	574,030
TOTAL EXPENSES	$ 2,072,341	$ 588,630	$ 2,660,971	$ 8,150,360	$ 965,820	$ 9,116,180	$ 11,777,151	$ 1,835,028	$ 128,935	$ 1,963,963	$ 13,741,114

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

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS

(A Texas Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2015

	Health and Human Services			Educational				Supporting Services			
	Residential/ Outpatient	Prevention/ Intervention	Sub-Total Health and Human Sevices	George I. Sanchez Houston	Adelante	Sub-Total Educational	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	$ 1,069,485	$ 432,272	$ 1,501,757	$ 4,175,727	$ 612,405	$ 4,788,132	$ 6,289,889	$ 452,584	$ -	$ 452,584	$ 6,742,473
Employee fringe benefits	75,202	34,435	109,637	451,213	31,435	482,648	592,285	33,786	-	33,786	626,071
Payroll taxes	98,639	39,264	137,903	165,142	59,338	224,480	362,383	32,823	-	32,823	395,206
Professional fees and contract services payments	87,831	10,687	98,518	199,160	7,352	206,512	305,030	25,658	129,567	155,225	460,255
Food, clothing and other	32,043	-	32,043	184,722	-	184,722	216,765	-	-	-	216,765
Insurance - other	29,059	15,928	44,987	127,711	16,778	144,489	189,476	23,053	-	23,053	212,529
Equipment rental/maintenance	31,871	7,994	39,865	92,816	12,329	105,145	145,010	284,488		284,488	429,498
Rent-office	164,457	50,678	215,135	1,282,372	94,714	1,377,086	1,592,221	14,745		14,745	1,606,966
Supplies	41,094	24,455	65,549	267,097	28,927	296,024	361,573	13,345	955	14,300	375,873
Travel/seminars	15,909	11,044	26,953	57,235	2,140	59,375	86,328	9,279	830	10,109	96,437
Utilities	45,649	8,967	54,616	6,526	3,612	10,138	64,754	293,117	-	293,117	357,871
Miscellaneous	29,734	28,161	57,895	118,278	4,799	123,077	180,972	77,743	2,509	80,252	261,224
Interest/bank charges	-	-	-	-	-	-	-	65,615	-	65,615	65,615
Depreciation of property and equipment	2,928	1,120	4,048	60,256	12,156	72,412	76,460	488,245	-	488,245	564,705
TOTAL EXPENSES	$ 1,723,901	$ 665,005	$ 2,388,906	$ 7,188,255	$ 885,985	$ 8,074,240	$ 10,463,146	$ 1,814,481	$ 133,861	$ 1,948,342	$ 12,411,488

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

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 322,586	$ 310,473
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	574,030	564,705
Change in the fair value of liability under an interest rate swap contract	(53,806)	(60,182)
Change in operating assets and liabilities:		
Grants receivable	9,005	(186,414)
Prepaid expenses	6,721	4,080
Other assets	(125)	(3,000)
Accounts payable	37,239	49,521
Accrued liabilities	46,409	(34,231)
Unearned revenue	18,651	29,543
Total adjustments	638,124	364,022
Net cash provided by operating activities	960,710	674,495
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(234,812)	(138,611)
Purchase of certificate of deposit	-	(250,000)
Reinvestment of earnings from certificate of deposit	(2,802)	(1,058)
Net cash used in investing activities	(237,614)	(389,669)
CASH FLOWS USED BY FINANCING ACTIVITIES:		
(Increase)/decrease in cash and cash equivalents, restricted	(21,915)	349
Payments to a counterparty under an interest rate swap contract	(97,306)	(102,783)
Repayment of borrowings	(419,905)	(570,603)
Net cash used in financing activities	(539,126)	(673,037)
Net increase/(decrease) in cash and cash equivalents	183,970	(388,211)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,050,440	1,438,651
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,234,410	$ 1,050,440
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during the year	119,919	118,550

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

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The Association for the Advancement of Mexican-Americans (AAMA) is a Texas nonprofit corporation established on November 23, 1970 to provide educational and health and human services to at-risk populations. AAMA's mission is to advance the lives of at-risk youth and families through an array of innovative programs that provide education, healthcare, human services, and community development initiatives to strengthen families and neighborhoods. AAMA receives grants primarily from federal, state and local agencies to fund these programs. The Board of Directors has primary accountability for the fiscal affairs of AAMA.

AAMA operates the George I. Sanchez Charter School in Houston on two campuses. The results of the operations of the George I. Sanchez Charter School are included in the accompanying financial statements.

Basis of Accounting

The financial statements of AAMA have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), codified by the Financial Accounting Standards Board (FASB) into Accounting Standards Codification (ASC).

Financial Statements Presentation

AAMA is required by accounting principles generally accepted in the United States of America to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as defined below:

Unrestricted net assets – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of AAMA. Unrestricted net assets may be designated for any specific purpose by action of the Board of Directors.

Temporarily restricted net assets – These are resources that are subject to donor-imposed stipulations that may be met, either by actions of AAMA and/or the passage of time. This classification includes contributions and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets – These are resources that are subject to donor-restrictions requiring that the principal be held in perpetuity and any income thereon be used by AAMA. AAMA did not have any permanently restricted net assets as of August 31, 2016 and 2015.

In addition, AAMA is required by FASB ASC Topic 958-205, *Financial Statements of Not-for-Profit Organizations*, to present statements of functional expenses and cash flows.

When both restricted and unrestricted resources are available for use, it is AAMA's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue Recognition

Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on the passage of time. Program income and other income are recognized the earlier of when received or when billed. Conditional promises to give cash or other assets are not recognized until received.

Texas Education Agency Financial Accountability Guide

For all federal and state programs, the George I. Sanchez Charter School uses the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accountability System and Resource Guide* for nonprofit charter schools. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance for the charter school received through the Texas Education Agency is generally accounted for in temporarily restricted net asset codes.

Cash and Cash Equivalents

AAMA 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 value of cash equivalents included in cash and cash equivalents as of August 31, 2016 and 2015 was $3,981,187 and $3,775,302, respectively.

At August 31, 2016 and 2015, AAMA had restricted cash and cash equivalents and certificate of deposit of $3,000,371 and $2,975,920, respectively, to satisfy specific donor imposed restrictions.

Derivative Financial Instruments

AAMA makes limited use of derivative financial instruments in order to manage certain exposures or mitigate certain risks. Derivative financial instruments are recorded at fair value.

Fair Value of Financial Instruments

For fair value disclosure purposes, the interest rate swap contract related to a bond payable is valued at the net present value of future cash flows attributable to the difference between the contractual variable and fixed rates in the contract, adjusted for nonperformance risk of both the counterparty and AAMA. The carrying value of all other financial instruments approximates fair value.

Grants Receivable

Grants receivable represent pending reimbursements of program expenses incurred as of year-end, both billed and unbilled, and expected to be received from the funding sources in the subsequent year. Management considers such receivables at August 31, 2016 and 2015 to be fully collectible. Accordingly, no allowance for delinquent grants receivable was made in the accompanying financial statements.

Pledges Receivable

Unconditional promises to give are recognized as revenues in the period received and as pledges receivable. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at their estimated fair value at the date of donation. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Presently, the Organization does not have any assets which have donor-imposed restrictions.

AAMA's policy is to capitalize all asset acquisitions with the useful life expectancy of greater than one year and with a cost of $5,000 or greater. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 30 years. Maintenance and repairs are charged to expense when incurred. Renewals and betterments that extend the useful lives of the assets are capitalized.

Compensable Absences

Vacation and personal leave time are granted to AAMA employees. Under AAMA's policy for non-school employees, paid vacation leave is provided to full-time employees and generally accrues up to a maximum amount based on an employee's years of service. When an employee reaches the maximum vacation accrual amount for their years of service they do

not continue to accrue vacation unless such maximum amount has been reduced. Full-time school employees do not earn vacation leave. They accrue state personal leave based on the number of days worked, up to a maximum of 5 workdays annually. Accrued, unused personal leave for full-time school employees carries over from school year to school year and may be transferrable to another school district in Texas, depending on the policies of the specific district involved. However, vacation and personal leave time are not paid out at time of termination of employment. All full-time school employees are also entitled to sick leave based on the number of days worked in a calendar year. Employees are not compensated for unused sick leave which cannot be carried forward into another calendar year. No accrual for unused employee vacation, personal leave and sick days is recorded in the accompanying financial statements since earned vacation, personal leave and sick days are not vested but, with the exception of personal leave time for school employees as noted above, are forfeited upon separation of employment.

Unearned Revenue

Unearned revenue represents amounts received by AAMA, which have not yet been earned. Such amounts are recognized as revenue when earned, generally when expenditures have been incurred for purposes specified, or other applicable donor imposed condition has been met.

Contributions

Contributions are recognized when the donor makes a promise to give to AAMA that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. 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.

Concentration of Contributions or Grants

Approximately 83% and 81% of AAMA's total revenues for the years ended August 31, 2016 and 2015 was provided by federal, state and local governments.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in AAMA's financial statements relate primarily to the calculation of the liability under an interest rate swap contract; the Foundation

School Program revenue accrual which requires an estimate based on additional information provided to the State; the useful lives applied in asset depreciation, and; the functional allocation of expenses.

Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying financial statements at their estimated values at date of receipt. A substantial number of volunteers have donated significant amounts of their time to AAMA's program services and fundraising efforts. Donations of services are classified as "In-kind" donations and are generally reflected on the financial statements as income with an identical offset to expense. In-kind donations are generally valued by the donor and may be used by AAMA to satisfy various State grant requirements for a five percent (5%) match by the donee.

Income Taxes

AAMA is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except on net income derived from unrelated business activities. For the years ended August 31, 2016 and 2015, AAMA has determined that no income taxes are due for these activities. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. In addition, AAMA qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Code.

AAMA applies the provisions of FASB ASC Topic 740, *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 Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. AAMA 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.

Tax years 2013 - 2015 remain open to examination by the taxing jurisdictions to which AAMA is subject, and these periods have not been extended beyond the applicable statute of limitations.

Functional Allocation of Expenses

The costs of providing various programs and other activities of AAMA have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited in accordance with AAMA's cost allocation plan. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of AAMA.

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 AAMA's 2021 annual financial statements. Management is currently evaluating the impact this update will have on AAMA's financial statements.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

2. PROGRAM SERVICES

The costs of providing the various program services by AAMA are shown in the accompanying statements of functional expenses. The following are the descriptions of AAMA's program services:

Health and Human Services Programs

Residential/Outpatient Drug Treatment – These programs provide comprehensive chemical dependency treatment services to youth, adults, and their families in several residential and out-patient centers located in Houston, San Antonio and Laredo, Texas.

Prevention/Intervention – These programs provide services to prevent substance abuse by youth and gang intervention for at-risk youth in Houston, Texas. Additionally, preventive education, awareness, peer intervention case management, testing and counseling are provided to youth and adults at high risk of HIV/AIDS in Houston, Texas.

Education Programs

George I. Sanchez Charter School – Houston – The charter school serves students otherwise left behind, at-risk youth and dropouts from other schools to give them a second chance. The educational syllabus includes early college education courses. Students who are academically behind receive additional support, including block scheduling, tutoring, and credit recovery programs, small class sizes, and counseling support. In addition, day-care and parenting classes are provided for students who are already parents and gang intervention programs are utilized to engage students caught in street crime, all with the goal of creating a safer atmosphere in the schools to facilitate learning.

In June 1996, George I. Sanchez School (GIS) was designated as an open enrollment charter high school by the State of Texas and now receives its primary funding directly from the

Texas Education Agency. Currently, GIS offers classes from Pre-K and the 6th through the 12th grades on two campuses in Houston, Texas.

Adelante – This program provides adult basic education including GED, ESL, Civics, Family Literacy and Medical Business Office Professional certification classes to adults at various locations in Houston, Texas.

3. CONCENTRATION OF CREDIT RISKS

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, AAMA will not be able to recover its deposits. Although AAMA does not have a formal deposit policy, it maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risks by maintaining deposits at institutions with demonstrated financial strength. Bank balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per bank. The total cash maintained by AAMA in their banks as of August 31, 2016 and 2015 which was subject to custodial credit risk was $4,278,253 and $4,109,617, respectively. At August 31, 2016 and 2015, AAMA's deposits at one of its banks included the sum of $1,638,000 and $1,817,358, respectively, in funds collateralized by U.S. Treasury Bills which provided additional coverage leaving the un-insured balance of $1,420,162 and $774,579 as of August 31, 2016 and 2015, respectively. 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 grants receivable is minimal due to the credit worthiness of the federal, state, and local funding agencies.

4. FAIR VALUE MEASUREMENTS

U.S. GAAP requires that certain assets and liabilities be reported at fair value and establishes a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

Certain financial assets of AAMA are measured at fair value on a recurring basis. The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Pricing inputs include significant inputs that are generally less observable or from unobservable sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial instruments measured at fair value on a recurring basis at August 31, 2016 and 2015 are as follows:

	Level 1	Level 2	Level 3	Total
Certificate of deposit at August 31, 2016	$ 253,594	$ -	$ -	$ 253,594
Certificate of deposit at August 31, 2015	$ 251,058	$ -	$ -	$ 251,058

AAMA's remaining financial instruments consist of cash, receivables, accounts payable and an interest rate swap contract. Management believes the carrying amounts of cash, receivables and accounts payable approximate their fair value. The interest rate swap contract has been measured and reported at fair value on the statements of financial position as of August 31, 2016 and 2015, using the terms of the contract and other applicable factors such as the national inflation rate and the variable interest rate at the dates of the measurement.

The valuation techniques utilized in determining the fair value of AAMA's financial instruments are consistently applied from year to year.

5. PROPERTY AND EQUIPMENT

Depreciation expense for the years ended August 31, 2016 and 2015 was $574,030 and $564,705, respectively.

Capital assets acquired with public funds received by AAMA for the operation of George I. Sanchez Houston constitutes public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for the charter school.

6. ACCRUED SALARIES

During August 31, 2016 and 2015, AAMA's staff worked eight (8) and six (6) days for which they were not paid until after September 1, 2016 and 2015, respectively. Based on the rates of pay and the number of days worked by respective employees, AAMA accrued $179,773 to be paid after September 1, 2016 and $205,343 after September 1, 2015 and these amounts are recorded in accrued liabilities.

7. OPERATING LEASES

AAMA leases office space and equipment under operating lease agreements with third parties. Office rent expense for 2016 and 2015 amounted to $147,542 and $110,517, respectively. Office equipment rent expense for 2016 and 2015 amounted to $16,910 and $37,696, respectively.

The following is a schedule of future minimum lease payments under non-cancellable leases:

Year Ended August 31,	Amount
2017	$ 90,092

8. BONDS AND NOTES PAYABLE

Bonds and notes payable to a bank at August 31, 2016 and 2015 consisted of the following:

	2016	2015
Note/Bond 2006A payable construction loan for Multi-Purpose Education Center (MPEC), due in monthly installments of principal and variable interest rate. Under a swap agreement, and a variable interest rate, the combined interest does not exceed 5.68%. Outstanding principal and interest due in 2021.	$ 1,769,594	$ 2,137,991
Note/Bond 2006B payable construction loan for the new Academic Learning Center (ALC), principal and interest payments due monthly with a variable interest rate based on 65.498% of LIBOR plus 1.93%. Oustanding principal and interest due in September 2021.	3,066,314	3,117,821
Total debt	4,835,908	5,255,812
Less current portion	148,063	137,968
	$ 4,687,845	$ 5,117,844

All bank notes payable are secured by a deed of trust on land and buildings.

The future maturities of AAMA's bonds and notes payable as of August 31, 2016 were as follows:

Year Ended August 31,	Amount
2017	$ 148,063
2018	155,886
2019	165,084
2020	173,929
2021	183,466
Thereafter	4,009,481
	$ 4,835,908

AAMA's construction loan agreements for MPEC and the ALC contain various covenants. AAMA was compliant with those covenants.

AAMA has a revolving line of credit of $500,000 with a variable interest rate based upon an index which is Libor rate plus 3.479%. AAMA did not draw on this line of credit in the current fiscal year. The revolving line of credit expired May 9, 2016 and was not renewed.

For the years ended August 31, 2016 and 2015, AAMA recorded interest expense of $59,737 and $58,368, respectively. No interest expense was capitalized for the years ended August 31, 2016 and 2015.

9. INTEREST RATE SWAP CONTRACT

With respect to the Note/Bond 2006A payable for MPEC, the construction loan agreement signed on September 14, 2006, AAMA signed a general swap master contract dated September 14, 2006, and entered into an interest rate swap transaction with the lending bank to pay interest on the outstanding loan balance at a fixed rate of 5.68% per annum for the period beginning September 14, 2006 through September 14, 2021.

An interest rate swap contract is used by AAMA to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. The interest rate swap contract is a derivative instrument that is required to be marked to fair value and recorded on the statement of financial position. At August 31, 2016 and 2015, the notional principal amounts under the interest rate swap contract, amounted to $1,769,594 and $2,137,991, respectively. The estimated fair value of the interest rate swap contract was a liability of $261,947 and $413,059, and is included in the accompanying statements of financial position as of August 31, 2016 and 2015, respectively. Of these totals, $58,926 and $75,859 represent amounts that are currently due as of August 31, 2016 and 2015, respectively.

The change in fair value on this interest rate swap agreement was a gain of $53,805 and $60,182 for the years ended August 31, 2016 and 2015, respectively, and is included in the statements of activities.

The following table represents the interest rate swap liability, measured at fair value, on a recurring basis at August 31, 2016 and 2015:

	Level 1	Level 2	Level 3	Total
Interest rate swap liability at August 31, 2016	$ -	$ 261,947	$ -	$ 261,947
Interest rate swap liability at August 31, 2015	$ -	$ 413,059	$ -	$ 413,059

For the valuation of the interest rate swap at August 31, 2016 and 2015, AAMA used significant other observable inputs as of the valuation date (Level 2). The value was determined and adjusted to reflect nonperformance risk of both the counterparty and AAMA. See Note 4 for definition of Levels 1, 2 and 3.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets amounting to $75,106 and $83,606, respectively, as of August 31, 2016 and 2015, and summarized below, represent contributions to AAMA, which the donors have restricted for use in future periods:

	Year Ended August 31,	
	2016	2015
Restricted for capital improvement	$ 54,535	$ 66,350
Restricted for nutrition staff training	5,000	-
Restricted for scholarships	15,571	17,256
Total restricted net assets	$ 75,106	$ 83,606

In accordance with the requirement of House Bill 6, of the 77th Texas Legislative Session, all Foundation School Programs and other State Aid received after September 1, 2001 by AAMA is considered temporarily restricted funds to be held in trust by AAMA for the benefit of the students of the George I. Sanchez charter schools. During the years ended August 31, 2016 and 2015, net assets of $7,885,078 and $6,899,023, respectively, were released from the Texas Education Agency restrictions by satisfying the restrictions.

11. STATE FOUNDATION PROGRAM REVENUE

George I. Sanchez charter schools had eight (8) and six (6) days of instruction in August 2016. Based on the estimated State Foundation Program revenue for the 2015-2016 and 2014-2015 school years, as provided by the Texas Education Agency, the charter schools earned and accrued $320,080 and $206,363 of State Foundation Program revenue for these days of instruction as of August 31, 2016 and 2015, respectively. These amounts have been recorded as revenues and receivables in fiscal years 2016 and 2015.

12. MULTIEMPLOYER PENSION PLANS

AAMA is a participating employer in multiemployer defined benefit pension plan for the benefit of George I. Sanchez ("GIS") School employees. AAMA contributes for GIS School employees to the Teacher Retirement System of Texas (“TRS”), a public employee retirement system. TRS administers service retirement and disability annuities, and death and

survivor benefits to TRS' members and beneficiaries. TRS 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. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

The risk of participating in this multiemployer defined benefit pension plan are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) 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 (c) if an entity chooses to stop participating in one of its multiemployer plans, it may be required to pay a withdrawal liability to the plan. AAMA has no plans to withdraw from its multiemployer plan.

The following presents information about AAMA's multiemployer pension plan as of August 31, 2016 and 2015:

		Total Plan Assets (in thousands)		Accumulated Benefit Obligations (in thousands)		% funded	
Name of Pension Fund	EIN and Plan Number	2016	2015	2016	2015	2016	2015
TRS	N/A	$152,925,647	$149,780,062	$171,797,150	$163,887,375	78.00%	78.43%

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

	AAMA's Contributions for Year Ended August 31,				
Collective Bargaining Agreement	2016	2015	More than 5% of Total Contributions	FIP/RP Status	Surcharge Imposed
N/A	$519,733	$431,000	No	N/A	No

Funding Policy

Under provisions in the State of Texas law, TRS 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 and 1% for

TRS Care. George I. Sanchez charter schools employees' contributions to the TRS System were as follows:

	Year Ende
	2016
TRS Retirement	$ 327,562
TRS Care	29,572
	$ 357,134

Under provisions in the State of Texas law, AAMA is required to pay a 0.55% administrative TRS entity fee and an entity payment of 1.5% for Non-OASDI members for covered salary. George I. Sanchez charter schools employers' total administrative fee to the TRS was as follows:

	Year Ended August 31	
	2016	2015
TRS Entity Fee	$ 25,022	$ 21,219
TRS Entity Payment for Non-OASDI Members	68,243	57,874
	$ 93,265	$ 79,093

For payroll covered by federal government funded grants, AAMA is required to contribute to the defined benefit plan matching contribution amount of 6.80% to TRS Retirement and 1% for TRS Care for the charter school's covered payroll. The employer's contributions made by George I. Sanchez charter school to the TRS were as follows:

	Year Ended August 31	
	2016	2015
TRS Retirement	$ 62,617	$ 61,338
TRS Care	6,717	6,993
	$ 69,334	$ 68,331

13. DEFINED CONTRIBUTION PLAN

AAMA sponsors a 403(b) plan (the "Plan") covering substantially all employees. The Plan permits employees to make contributions to the Plan, however, AAMA does not contribute to the Plan. The employee's contributions to the Plan for the fiscal year ended August 31, 2016 and 2015 amounted to $140,334 and $146,276, respectively.

14. HEALTH CARE COVERAGE

During the years ended August 31, 2016 and 2015, employees of AAMA were covered by a health insurance plan (the Plan). During fiscal year 2016, AAMA's contribution ranged from $364 to $854 per month per employee to the Plan based on coverage. During fiscal year 2015, AAMA's contribution ranged from $358 to $841 per month per employee to the Plan based on coverage.

15. INSURANCE COVERAGE

AAMA is exposed to various risks of loss related to torts, injuries to employees, property losses and natural disasters. AAMA carries commercial insurance to mitigate losses to which it may be exposed.

On August 31, 2016 and 2015, AAMA had insurance policy coverage as follows:

	Year Ended August 31,	
	2016	**2015**
Buildings	$ 16,550,000	$ 16,145,000
Personal property	2,780,000	2,730,000
Business income/interruption	4,165,000	3,640,000
Commercial automobile	16,000,000	11,000,000
General and professional liability	16,000,000	11,000,000
Sexual abuse	2,000,000	2,000,000
Directors and officers/Employment practices	2,000,000	2,000,000
Commercial crime	500,000	500,000
Student/Volunteer accident	100,000	50,000
Excess student accident	6,000,000	1,000,000
Employers liability	16,000,000	11,000,000
Fiduciary liability	1,000,000	1,000,000

16. RELATED PARTY TRANSACTIONS

Certain members of the board of directors and management of AAMA made cash contributions in support of AAMA activities. Total contributions amounted to $47,912 and $40,363 for fiscal years ended August 31, 2016 and 2015, respectively.

17. CONTINGENCIES

From time to time, AAMA is a defendant in legal proceedings related to its operations. In the best judgment of AAMA's management, and after consultation with its legal counsel, the outcome of any present legal proceedings will not have a material adverse effect on the accompanying financial statements.

AAMA receives grants from Federal, State, and local sources that are governed by various statutes and regulations and are subject to review and audit by the funding sources. State program funding is based primarily on student attendance data submitted to the 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. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs resulting in a liability. Consequently, any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by AAMA with the terms of the grants/contracts. However, in the opinion of AAMA's management, such disallowances, if any, will not have a material effect on any of the 2016 and 2015 financial statements of AAMA.

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2016; the date financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

SUPPLEMENTARY INFORMATION

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)
GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON
SCHEDULES OF ASSETS, LIABILITIES AND NET ASSETS
AUGUST 31, 2016 AND 2015 **Schedule I**

ASSETS:	2016	2015
CURRENT ASSETS:		
Cash and cash equivalents, restricted	2,676,675	2,641,266
Certificate of deposit, restricted	253,594	251,058
Grants receivable and reimbursable grant expenses	329,865	281,331
Prepaid expenses	36,684	37,227
Other assets	3,000	3,000
Total current assets	3,299,818	3,213,882
NONCURRENT ASSETS:		
Buildings and improvements	539,653	539,653
Furniture and equipment	1,012,824	877,659
Less: accumulated depreciation	(1,268,395)	(1,198,437)
Property and equipment, net	284,082	218,875
Total noncurrent assets	284,082	218,875
TOTAL ASSETS	$ 3,583,900	$ 3,432,757
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	256,429	284,341
Unearned revenues	113,588	117,390
Short-term loan	-	-
Total current liabilities	370,017	401,731
TOTAL LIABILITIES	370,017	401,731
NET ASSETS:		
Unrestricted	3,208,883	3,031,026
Restricted	5,000	-
TOTAL NET ASSETS	3,213,883	3,031,026
TOTAL LIABILITIES AND NET ASSETS	$ 3,583,900	$ 3,432,757

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)
GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON
SCHEDULES OF ACTIVITIES
YEAR ENDED AUGUST 31, 2016
(with Memorandum Totals for the Year Ended August 31, 2015) **Schedule II**

		Unrestricted	Temporarily Restricted	Totals 2016	Totals 2015
REVENUES:					
Local support:					
5740	Other revenues from local sources	$ 372,360	$ -	$ 372,360	$ 468,732
5750	Revenue from cocurricular, enterprising services or activities	89,094	-	89,094	93,734
Total local support		461,454	-	461,454	562,466
State program revenues:					
5810	Foundation school program act revenues	-	7,120,118	7,120,118	6,085,054
5820	State program revenues distributed by the Texas Education Agency	-	10,149	10,149	7,999
5830	State program revenues from agencies other than Texas Education Agency	-	5,000	5,000	-
Total state program revenues		-	7,135,267	7,135,267	6,093,053
Federal program revenues:					
5920	Federal revenues distributed by the Texas Education Agency	-	736,496	736,496	803,728
Net assets released from restrictions:					
	Restrictions satisfied by payments	7,866,763	(7,866,763)	-	-
TOTAL REVENUES		8,328,217	5,000.00	8,333,217	7,459,247
EXPENSES:					
11	Instruction	3,760,779	-	3,760,779	3,281,006
13	Curriculum development and instructional staff development	87,326	-	87,326	79,464
23	School leadership	535,477	-	535,477	421,562
31	Guidance, couseling and evaluation services	221,446	-	221,446	364,583
32	Social work services	124,592	-	124,592	102,843
34	Student (pupil) transportation	174,027	-	174,027	87,910
35	Food services	351,597	-	351,597	328,441
36	Extracurricular activities	74,298	-	74,298	22,514
41	General administration	815,269	-	815,269	874,486
51	Plant maintenance and operations	1,591,957	-	1,591,957	1,329,052
52	Security and monitoring services	154,393	-	154,393	144,943
53	Data processing services	67,002	-	67,002	45,422
61	Community services	192,197	-	192,197	106,029
TOTAL EXPENSES		8,150,360	-	8,150,360	7,188,255
CHANGE IN NET ASSETS		177,857	5,000.00	182,857	270,992
NET ASSETS, BEGINNING OF YEAR		3,031,026	-	3,031,026	2,760,034
NET ASSETS, END OF YEAR		$ 3,208,883	$ 5,000.00	$ 3,213,883	$ 3,031,026

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)
GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON
SCHEDULES OF CASH FLOWS
YEARS ENDED AUGUST 31, 2016 AND 2015 **Schedule III**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 182,857	$ 270,992
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	69,958	60,256
Changes in operating assets and liabilities:		
Grants receivable	(48,534)	(38,393)
Prepaid expenses	543	(10,101)
Other assets	-	(3,000)
Accounts payable and accrued liabilities	(27,912)	(29,276)
Unearned revenue	(3,802)	37,434
Total adjustments	(9,747)	16,920
Net cash provided by operating activities	173,110	287,912
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Building improvements and purchases of equipment	(134,899)	(36,305)
Purchase of certificate of deposit	-	(250,000)
Reinvestment of earnings from certificate of deposit	(2,802)	(1,058)
Net cash used in investing activities	(137,701)	(287,363)
NET INCREASE IN CASH AND CASH EQUIVALENTS	35,409	549
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,641,266	2,640,717
CASH AND CASH EQUIVALENTS, END OF YEAR	$2,676,675	$2,641,266

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)
GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON
SCHEDULES OF EXPENSES
YEARS ENDED AUGUST 31, 2016 AND 2015 **Schedule IV**

		TOTALS	
		2016	**2015**
EXPENSES:			
6100	Payroll costs	5,375,202	4,792,082
6200	Professional and contracted services	1,891,769	1,574,027
6300	Supplies and materials	518,759	468,757
6400	Other operating costs	364,630	353,389
		$ 8,150,360	$ 7,188,255

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)
GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON
SCHEDULES OF CAPITAL ASSETS
AUGUST 31, 2016 AND 2015

Schedule V

	2016				2015			
	Ownership Interest				Ownership Interest			
	Local	State	Federal	Total	Local	State	Federal	Total
Building and improvements	$ 7,330	$ 170,441	$ 361,882	$ 539,653	$ 7,330	$ 170,441	$ 361,882	$ 539,653
Furniture and equipment	27,316	581,603	403,905	1,012,824	27,316	446,438	403,905	877,659
Total capital assets	$ 34,646	$ 752,044	$ 765,787	$ 1,552,477	$ 34,646	$ 616,879	$ 765,787	$ 1,417,312

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)

GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2016

Schedule VI

	Budgeted Amounts					Explanation (see references)
	Original	Final	Actual Amounts	$ Variance	% Variance	Unaudited
REVENUES:						
Local support:						
5740 Other revenues from local sources	$ 160,106	$ 142,993	$ 372,360	$ 229,367	160%	{a}
5750 Revenue from co-curricular, enterprising services or activities	75,000	40,102	89,094	48,992	122%	{a}
Total local support	235,106	183,095	461,454	278,359		
State program revenues:						
5810 Foundation school program act revenues	6,455,936	6,998,905	7,120,118	121,213	2%	
5820 State program revenues distributed by the Texas Education Agency	8,367	10,149	10,149	-	0%	
5830 State program revenues from agencies other than Texas Education Agency	-	5,000	5,000	-	0%	
Total state program revenues	6,464,303	7,014,054	7,135,267	121,213		
Federal program revenues:						
5920 Federal revenues distributed by the Texas Education Agency	835,148	828,844	736,496	(92,348)	-11%	{b}
TOTAL REVENUES	7,534,557	8,025,993	8,333,217	307,224		
EXPENSES:						
11 Instruction	3,540,543	3,698,206	3,760,779	(62,573)	-2%	
13 Curriculum and instructional staff development	20,379	62,943	87,326	(24,383)	-39%	{c}
23 School leadership	351,667	471,527	535,477	(63,950)	-14%	{d}
31 Guidance, couseling and evaluation services	228,719	189,268	221,446	(32,178)	-17%	{e}
32 Social work services	89,255	125,150	124,592	558	0%	
34 Student (pupil) transportation	87,432	165,657	174,027	(8,370)	-5%	
35 Food services	398,456	366,236	351,597	14,639	4%	
36 Cocurricular/extracurricular activities	27,364	19,332	74,298	(54,966)	-284%	{f}
41 General administration	978,154	815,007	815,269	(262)	0%	
51 Plant maintenance and operations	1,582,372	1,579,099	1,591,957	(12,858)	-1%	
52 Security and monitoring services	139,263	160,025	154,393	5,632	4%	
53 Data processing services	155,323	62,921	67,002	(4,081)	-6%	
61 Community services	160,424	208,666	192,197	16,469	8%	
TOTAL EXPENSES	7,759,351	7,924,037	8,150,360	(226,323)		
CHANGE IN NET ASSETS	(224,794)	101,956	182,857	80,901		
NET ASSETS, BEGINNING OF YEAR	1,813,037	2,105,676	3,031,026	925,350		
NET ASSETS, END OF YEAR	$ 1,588,243	$ 2,207,632	$ 3,213,883	$ 1,006,251		

Reference:
{a} Budget did not include additional local funds.
{b} Budget was not fully utilized.
{c} Underbudgeted cost. Budget did not include additional local funds. Professional development and travel expenses for teacher club, books/materials for teachers, and computers for teacher training sponsored by NCLR grants.
{d} Budget did not include additional local funds. School administrator staff funded through Starbucks grant.
{e} Underbudgeted cost. Budget did not include additional local funds. School counselor expense funded through Sam Housotn State University grant.
{f} Underbudgeted cost. Budget did not include additional local funds. Afterschool program staff expenses and senior expenses funded through Harris Co. Dept. of Education, Walmart and Disney grants.

SINGLE AUDIT SECTION

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)

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

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through or Grantor's Number	Total Federal Expenditures
U.S Department of Health and Human Services			
Passed-through Texas Department of State Health Services:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-046046-001 SA/YPU	$ 110,885
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048180-001 SA/HIV	106,538
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048258-001 SA/HEI	80,536
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048537-001 SA/TRA	204,312
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048581-001 SA/TRA	340,172
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048376-001 SA/TRY	527,027
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048377-001 SA/TRY	338,673
Total Passed-Through Texas Department of State Health Services			1,708,143
Total - U.S. Department of Health and Human Services			1,708,143
U.S. Department of Education			
Passed-Through Texas Education Agency:			
ESEA, Title I, Grants to Local Educational Agencies:			
Part A, Improving Basic Programs	84.010A	16610101101804	248,795
Part A, Improving Basic Programs	84.010A	15610101101804	25,359
Part D, Prevention and Intervention Programs for Children and Youth who are Neglected, Delinquent, or At-risk	84.010A	16610103101804	15,186
Part D, Prevention and Intervention Programs for Children and Youth who are Neglected, Delinquent, or At-risk	84.010A	15610103101804	461
Total ESEA, Title I			289,801
ESEA, Title II, Preparing, Training, and Recruiting High Quality Teachers and Principals:			
Part A – Teacher and Principal Training and Recruiting	84.367A	16694501101804	29,919
Part A – Teacher and Principal Training and Recruiting	84.367A	15694501101804	5,798
Total ESEA Title II			35,717
ESEA, Title III, Language Instruction for Limited English Proficient and Immigrant Students:			
Part A – English Language Acquisition, Language Enhancement, and Academic Achievement	84.365A	16671001101804	$ 21,985

Continue

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

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONT'D
YEAR ENDED AUGUST 31, 2016

Part A – English Language Acquisition, Language Enhancement, and Academic Achievement – Houston	84.365A	15671001101804	$	1,379
Part A – English Language Acquisition, Language Enhancement, and Academic Achievement – Immigrants	84.365A	16671003101804		1,273
Total ESEA, Title III				24,637
IDEA, Part B, Special Education – Grants to States	84.027A	166600011018026600		72,126
Total IDEA, Part B				72,126
Grants for State Assessments and Related Activities	84.369A	69551502		2,226
Total Grants for State Assessments and Related Activities				2,226
Total Passed-Through Texas Education Agency				424,507
Passed-through Houston Community College				
Adult Education – Basic Grants to States	84.002	2115802865013405800		766,033
Total Passed-through Houston Community College				766,033
Total - U.S. Department of Education				1,190,540
U.S. Department of Agriculture				
Passed-through Texas Education Agency:				
National School Lunch Program – Cash	10.555	71301601		215,572
National School Lunch Program - Cash	10.555	71301501		40,728
School Breakfast Program	10.553	71401601		33,631
School Breakfast Program	10.553	71401501		3,660
Noncash Assistance (Commodities)	10.555	101203A		18,395
Total Passed-through - Texas Education Agency				311,986
Total - U.S. Department of Agriculture				311,986
Total Expenditure of Federal Awards			$	3,210,669

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

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)

NOTES TO 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 federal grant activities of AAMA 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 AAMA's operations, they are not intended to and do not present the financial position, changes in net assets, and cash flows of AAMA as a whole.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures 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. AAMA has elected not to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

3. RELATIONSHIP OF THE SCHEDULE TO FINANCIAL REPORTS SUBMITTED TO GRANTOR AGENCIES

Amounts reflected in the financial reports filed with grantor agencies for the programs and the Schedule 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 different program year ends.

4. COMMITMENTS AND CONTINGENCIES

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

5. RECONCILIATION TO TEA REPORTING

Reconciliation of TEA – Federal:		
TEA Payment Report 2016		$ 663,848
Pass-Through TEA (per the Schedule)		
U.S. Department of Education	352,381	
U.S. Department of Agriculture	293,592	645,973
Difference		17,875
Accounts receivable 2015	(43,171)	
Accounts receivable 2016	25,296	(17,875)
Difference		$ -

Reconciliation of TEA – State:		
TEA Payment Report 2016		$ 7,021,279
		7,021,279
FSP Anticipated payment adjustment 2015-2016	9,480	
FSP revenue settled-up near final accrual 2016	(4,751)	
Accrued revenue - 8 days FSP GIS Houston 2016	(320,080)	
Reverse accrual - 6 days FSP GIS Houston 2015	206,363	
Foundation School Program - Houston	7,130,267	7,021,279
Difference		$ -

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors of the
Association for the Advancement of Mexican-Americans

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 the Association for the Advancement of Mexican-Americans ("AAMA"), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

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

4828 Loop Central, Suite 1000
Houston, TX 77081
Phone: 713.968.1600
Fax: 713.968.1601

WWW.MCCONNELLJONES.COM

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AAMA'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 AAMA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AAMA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConnell & Jones LLP

Houston, Texas
November 30, 2016

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

To the Board of Directors of the
Association for the Advancement of Mexican-Americans

Report on Compliance for Each Major Federal Program

We have audited the Association for the Advancement of Mexican-Americans' ("AAMA") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of AAMA's major federal program for the year ended August 31, 2016. AAMA's major federal program is 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 AAMA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about AAMA'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 AAMA's major federal program. However, our audit does not provide a legal determination of AAMA's compliance.

Opinion on Each Major Federal Program

In our opinion, AAMA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2016.

Report on Internal Control Over Compliance

Management of AAMA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered AAMA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of AAMA'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 our report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McConnell & Jones LLP

Houston, Texas
November 30, 2016

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)

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

PART 1 – SUMMARY OF AUDITOR'S RESULTS

Financial Statement Section

1. Type of auditor's report issued:	Unmodified
2. Internal control over financial reporting:	
a) Material weaknesses identified?	No
b) Significant deficiencies identified?	No
c) Noncompliance material to the financial statements noted?	No

Federal Awards Section

1. Internal control over major programs:	
a) Material weaknesses identified?	No
b) Significant deficiencies identified that is not considered to be a material weakness?	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) and the State of Texas Single Audit Circular?	No
4. Identification of major programs:	

Federal - CFDA Number	Name of Federal Program or Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)

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

PART II: FINDINGS – FINANCIAL STATEMENT AUDIT

None reported.

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)

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

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

None noted.

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
(A Texas Nonprofit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS
YEAR ENDED AUGUST 31, 2016

Finding No. 2015-001: Compliance with Reporting Requirements

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	**Questioned Costs**
Prevention and Treatment of Substance Abuse Block Grants – CFDA 93.959	None

Criteria: In accordance with the terms of the grant agreements, AAMA was required to submit its quarterly performance report by the 15th day of the month following the end of each quarter to the Department of State Health Services ("DSHS").

Statement of Condition: During our review of AAMA's compliance with grant reporting requirements, we noted that the second and third quarters' performance reports for the HIV Early Intervention Services Program and the HIV Outreach Services Program were submitted three (3) days and one (1) date late, respectively. The second quarter's report was submitted on 3/18/2015 (due date was 3/15/2015), while the third quarter's report was submitted on 6/16/2015 (due date was 6/15/2015).

Recommendation: We recommend that AAMA establish procedures to ensure that reports are submitted in accordance with the provisions of the contract agreements.

Current Status: This finding has been resolved.