ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS

(A Texas Nonprofit Corporation)

Annual Financial and Compliance Audit

Years Ended August 31, 2017 and 2016

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, 2017 and 2016, 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.

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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, 2017 and 2016, 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 26 through 31 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 32 through 33 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 December 5, 2017, 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.

McConnell & Jones

Houston, Texas
December 5, 2017

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS

(A Texas Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2017 AND 2016

ASSETS:	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	$ 984,925	$ 1,234,410
Cash and cash equivalents, restricted	2,731,968	2,746,777
Certificate of deposit, restricted	-	253,594
Grants receivable and reimbursable grant expenses	603,002	721,606
Prepaid expenses	132,425	84,484
Total current assets	4,452,320	5,040,871
NONCURRENT ASSETS:		
Land, property and equipment		
Land (non-depreciable)	175,800	175,800
Building and improvements	14,916,048	14,724,728
Furniture and equipment	2,563,182	2,407,228
Construction in progress	30,946	66,415
Less: accumulated depreciation	(9,920,710)	(9,353,574)
Land, property and equipment, net	7,765,266	8,020,597
Other assets	19,964	18,570
Total noncurrent assets	7,785,230	8,039,167
TOTAL ASSETS	$ 12,237,550	$ 13,080,038
LIABILITIES & NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable	$ 157,985	$ 185,088
Accrued liabilities	341,360	358,986
Unearned revenue	241,719	300,650
Bonds and notes payable, current portion	155,773	148,063
Liability under an interest rate swap contract, current portion	48,537	58,926
Total current liabilities	945,374	1,051,713
Bonds and notes payable, net of current portion	4,554,730	4,687,845
Liability under an interest rate swap contract, net of curent portion	126,278	203,021
Total noncurrent liabilities	4,681,008	4,890,866
TOTAL LIABILITIES	5,626,382	5,942,579
NET ASSETS:		
Unrestricted	6,568,624	7,062,353
Temporarily restricted	42,544	75,106
TOTAL NET ASSETS	6,611,168	7,137,459
TOTAL LIABILITIES AND NET ASSETS	$ 12,237,550	$ 13,080,038

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, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Federal grants	$ 2,303,427	$ 835,628	$3,139,055
State, city, county, and other school grants	1,149,325	7,273,981	8,423,306
Fundraisers	248,825	-	248,825
Contributions	177,451	37,072	214,523
Property and rental income	1,811,955	-	1,811,955
Net assets released from restrictions	8,179,243	(8,179,243)	-
Other	96,510	-	96,510
TOTAL REVENUE	13,966,736	(32,562)	13,934,174
EXPENDITURES			
Program services:			
Health and human services	2,799,243	-	2,799,243
Educational	9,655,366	-	9,655,366
Total program services	12,454,609	-	12,454,609
Support services:			
Management and general	1,882,882	-	1,882,882
Fundraising activities	122,974	-	122,974
Total support services	2,005,856	-	2,005,856
TOTAL EXPENDITURES	14,460,465	-	14,460,465
CHANGE IN NET ASSETS	(493,729)	(32,562)	(526,291)
NET ASSETS, BEGINNING OF YEAR	7,062,353	75,106	7,137,459
NET ASSETS, END OF YEAR	$ 6,568,624	$ 42,544	$6,611,168

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 FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2017

	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	$ 1,418,006	$ 472,456	$ 1,890,462	$ 5,051,717	$ 666,237	$ 5,717,954	$ 7,608,416	$ 443,489	$ -	$ 443,489	$ 8,051,905
Employee fringe benefits	120,288	39,454	159,742	630,477	40,042	670,519	830,261	39,911	-	39,911	870,172
Payroll taxes	106,836	35,207	142,043	106,827	50,748	157,575	299,618	26,432	-	26,432	326,050
Professional fees and contract services payments	79,951	11,535	91,486	239,978	8,750	248,728	340,214	11,706	113,652	125,358	465,572
Food, clothing and other	41,948	1,594	43,542	206,417	-	206,417	249,959	-	-	-	249,959
Insurance - other	37,845	18,517	56,362	163,912	17,518	181,430	237,792	12,539	-	12,539	250,331
Equipment rental/maintenance	32,392	19,091	51,483	72,719	11,019	83,738	135,221	322,459	-	322,459	457,680
Rent-office	88,153	-	88,153	1,749,848	108,560	1,858,408	1,946,561	40,147	-	40,147	1,986,708
Supplies	63,584	32,641	96,225	222,817	11,336	234,153	330,378	16,582	2,037	18,619	348,997
Travel/seminars	17,328	12,607	29,935	82,303	3,419	85,722	115,657	11,470	459	11,929	127,586
Utilities	51,452	16,757	68,209	9,531	4,494	14,025	82,234	236,077	-	236,077	318,311
Miscellaneous	47,991	26,230	74,221	71,437	20,394	91,831	166,052	89,410	6,826	96,236	262,288
Interest/bank charges	38	-	38	-	-	-	38	127,637	-	127,637	127,675
Depreciation of property and equipment	3,431	3,911	7,342	86,391	18,475	104,866	112,208	505,023	-	505,023	617,231
TOTAL EXPENSES	$ 2,109,243	$ 690,000	$ 2,799,243	$ 8,694,374	$ 960,992	$ 9,655,366	$ 12,454,609	$ 1,882,882	$ 122,974	$ 2,005,856	$ 14,460,465

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)

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (526,291)	$ 322,586
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	617,231	574,030
Change in the fair value of liability under an interest rate swap contract	(533)	(53,806)
Change in operating assets and liabilities:		
Grants receivable	118,604	9,005
Prepaid expenses	(47,941)	6,721
Other assets	(1,394)	(125)
Accounts payable	(27,103)	37,239
Accrued liabilities	(17,626)	46,409
Unearned revenue	(58,931)	18,651
Total adjustments	582,307	638,124
Net cash provided by operating activities	56,016	960,710
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(361,903)	(234,812)
Proceeds from matured certificate of deposit	255,289	-
Reinvestment of earnings from certificate of deposit	(1,691)	(2,802)
Net cash used in investing activities	(108,305)	(237,614)
CASH FLOWS USED BY FINANCING ACTIVITIES:		
Decrease/(increase) in cash and cash equivalents, restricted	14,809	(21,915)
Payments to a counterparty under an interest rate swap contract	(86,599)	(97,306)
Repayment of borrowings	(125,406)	(419,905)
Net cash used in financing activities	(197,196)	(539,126)
Net (decrease)/increase in cash and cash equivalents	(249,485)	183,970
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,234,410	1,050,440
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 984,925	$ 1,234,410
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during the year	$ 120,167	$ 119,919

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, 2017 and 2016.

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, 2017 and 2016 was $3,716,893 and $3,981,187, respectively.

At August 31, 2017 and 2016, AAMA had restricted cash and cash equivalents and certificate of deposit of $2,731,968 and $3,000,371, 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, 2017 and 2016 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

Grants received in advance of the delivery of goods or performance of services are reported as unearned revenues.

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% of AAMA's total revenues for the years ended August 31, 2017 and 2016, respectively, 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, 2017 and 2016, 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 2014 - 2016 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.

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities* (Topic 958), which makes improvements that address certain identified issues about the current financial reporting for not-for-profit entities. This update will be effective for AAMA's 2019 annual financial statements. Management is currently evaluating the impact this update will have on AAMA's financial statements.

In August 2016, the FASB issued ASU 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarified guidance on certain cash flow classification issues. This update will be effective for AAMA's 2019 annual financial statements. Management is currently evaluating the impact this update will have on AAMA's financial statements.

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18 – *Statement of Cash Flows* (Topic 230), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This update will be effective for AAMA's 2020 annual financial statements. Management is currently evaluating the impact this update will have on AAMA's financial statements.

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 6^{th} through the 12^{th} 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,

2017 and 2016 which was subject to custodial credit risk was $3,497,514 and $4,278,253, respectively. At August 31, 2017 and 2016, AAMA's deposits at one of its banks included the sum of $1,471,000 and $1,638,000, respectively, in funds collateralized by U.S. Treasury Bills which provided additional coverage leaving the un-insured balance of $1,056,866 and $1,420,162 as of August 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

	Level 1	Level 2	Level 3	Total
Certificate of deposit at August 31, 2017	$ -	$ -	$ -	$ -
Certificate of deposit at August 31, 2016	$253,594	$ -	$ -	$253,594

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, 2017 and 2016, 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

Property and equipment at August 31, 2017 and 2016 were as follows:

	2017	2016
Land (non-depreciable)	$ 175,800	$ 175,800
Buildings and improvements	14,916,048	14,724,728
Furniture and equipment	2,563,182	2,407,228
Construction in progress	30,946	66,415
	17,685,976	17,374,171
Less: accumulated depreciation on depreciable assets	9,920,710	9,353,574
Property and equipment, net	$ 7,765,266	$ 8,020,597

Depreciation expense for the years ended August 31, 2017 and 2016 was $617,231 and $574,030, 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, 2017 and 2016, AAMA accrued $184,260 to be paid after September 1, 2017 and $179,773 after September 1, 2016 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 2017 and 2016 amounted to $174,753 and $147,542, respectively. Office equipment rent expense for 2017 and 2016 amounted to $25,724 and $16,910, respectively.

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

Year Ended August 31,	Amount
2018	$ 126,796
2019	16,728
	$ 143,524

8. BONDS AND NOTES PAYABLE

Bonds and notes payable to a bank at August 31, 2017 and 2016 consisted of the following:

	2017	2016
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.	$ 1,695,696	$ 1,769,594
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.	3,014,807	3,066,314
Total debt	4,710,503	4,835,908
Less current portion	155,773	148,063
	$ 4,554,730	$ 4,687,845

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, 2017 were as follows:

Year Ended August 31,		Amount
2018	$	155,773
2019		165,084
2020		173,929
2021		183,466
Thereafter		4,032,251
	$	4,710,503

AAMA's construction loan agreements for MPEC and the ALC contain various covenants. Due to certain unreimbursed expenses and less than expected student enrollment, AAMA incurred a decrease in its net assets for the current fiscal year. As a result, AAMA did not meet the covenant requirement of the debt service coverage ratio for the year ended August 31, 2017. However, in a letter to AAMA dated November 23, 2017, the bank waived the covenant provision for the required minimum debt service coverage ratio for the year ended August 31, 2017.

For the years ended August 31, 2017 and 2016, AAMA recorded interest expense of $119,634 and $59,737, respectively. No interest expense was capitalized for the years ended August 31, 2017 and 2016.

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, 2017 and 2016, the notional principal amounts under the interest rate swap contract, amounted to $1,695,696 and $1,769,594, respectively. The estimated fair value of the interest rate swap contract was a liability of $174,815 and $261,947, and is included in the accompanying statements of financial position as of August 31, 2017 and 2016, respectively. Of these totals, $48,537 and $58,926 represent amounts that are currently due as of August 31, 2017 and 2016, respectively.

The change in fair value on this interest rate swap agreement was a gain of $533 and $53,806 for the years ended August 31, 2017 and 2016, 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, 2017 and 2016:

	Level 1	Level 2	Level 3	Total
Interest rate swap liability at August 31, 2017	$ -	$174,815	$ -	$174,815
Interest rate swap liability at August 31, 2016	$ -	$261,947	$ -	$261,947

For the valuation of the interest rate swap at August 31, 2017 and 2016, 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 $42,544 and $75,106, respectively, as of August 31, 2017 and 2016, and summarized below, represent contributions to AAMA, which the donors have restricted for use in future periods:

	Year Ended August 31,	
	2017	2016
Restricted for capital improvement	$ 32,000	$ 54,535
Restricted for nutrition staff training	-	5,000
Restricted for scholarships	10,544	15,571
Total restricted net assets	$ 42,544	$ 75,106

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, 2017 and 2016, net assets of $8,179,243 and $7,885,078, respectively, were released from the Texas Education Agency's and other donors' restrictions by satisfying the restrictions.

11. STATE FOUNDATION PROGRAM REVENUE

George I. Sanchez charter schools had four (4) and eight (8) days of instruction in August, 2017 and 2016, respectively. Based on the estimated State Foundation Program revenue for the 2016-2017 and 2015-2016 school years, as provided by the Texas Education Agency, the charter schools earned and accrued $169,135 and $320,080 of State Foundation Program revenue for these days of instruction as of August 31, 2017 and 2016, respectively. These amounts have been recorded as revenues and receivables in fiscal years 2017 and 2016.

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, 2017 and 2016:

		Total Plan Assets (in thousands)		Accumulated Benefit Obligations (in thousands)		% funded	
Name of Pension Fund	EIN and Plan Number	2017	2016	2017	2016	2017	2016
TRS	N/A	$165,379,342	$152,925,647	$179,336,535	$171,797,150	82.17%	78.00%

The following presents information about AAMA's involvement of such multiemployer pension plan for the year ended August 31, 2017:

	AAMA's Contributions for Year Ended August 31,				
Collective Bargaining Agreement	2017	2016	More than 5% of Total Contributions	FIP/RP Status	Surcharge Imposed
N/A	$606,991	$519,733	No	N/A	No

Funding Policy

Under provisions in the State of Texas law, TRS members are required to contribute 7.70% 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 Ended August 31	
	2017	2016
TRS Retirement	$ 393,519	$ 327,562
TRS Care	33,218	29,572
	$ 426,737	$ 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	
	2017	2016
TRS Entity Fee	$ 28,109	$ 25,022
TRS Entity Payment for Non-OASDI Members	76,662	68,243
	$ 104,771	$ 93,265

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	
	2017	2016
TRS Retirement	$ 67,354	$ 62,617
TRS Care	8,129	6,717
	$ 75,483	$ 69,334

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, 2017 and 2016 amounted to $156,600 and $140,334, respectively.

14. HEALTH CARE COVERAGE

During the years ended August 31, 2017 and 2016, employees of AAMA were covered by a health insurance plan (the Plan). During fiscal year 2017, AAMA's contribution ranged from $404 to $948 per month per employee to the Plan based on coverage. During fiscal year 2016, AAMA's contribution ranged from $364 to $854 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, 2017 and 2016, AAMA had insurance policy coverage as follows:

	Year Ended August 31,	
	2017	**2016**
Buildings	$ 16,893,059	$ 16,550,000
Personal property	2,790,000	2,780,000
Business income/interruption	4,065,000	4,165,000
Commercial automobile	16,000,000	16,000,000
General and professional liability	16,000,000	16,000,000
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	100,000
Excess student accident	6,000,000	6,000,000
Employers liability	16,000,000	16,000,000
Fiduciary liability	1,000,000	1,000,000
Day Care Accident	100,000	100,000

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 $25,261 and $47,912 for fiscal years ended August 31, 2017 and 2016, 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 2017 and 2016 financial statements of AAMA.

18. BUDGET AMENDMENTS

Prior to the beginning of each school year, AAMA prepares and submits the annual budget for the next fiscal year for GIS. However, over estimation of projected student enrollment and under estimation of operational costs and expenses resulted in the significant variances between the original adopted budget and the final amended budget presented on the Budgetary Comparison Schedule for the 2017 fiscal year. AAMA's management considers such variances reasonable in GIS's routine operation, but will continue for improvement of a more accurate original adopted budget in the future.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 5, 2017; 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 **Schedule I**
SCHEDULES OF ASSETS, LIABILITIES AND NET ASSETS
AUGUST 31, 2017 AND 2016

ASSETS:	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents, restricted	$ 2,721,426	$ 2,676,675
Certificate of deposit, restricted	-	253,594
Grants receivable and reimbursable grant expenses	213,537	329,865
Prepaid expenses	78,316	36,684
Other assets	4,394	3,000
Total current assets	3,017,673	3,299,818
NONCURRENT ASSETS:		
Buildings and improvements	539,653	539,653
Furniture and equipment	1,016,405	1,012,824
Construction in progress	30,946	-
Less: accumulated depreciation	(1,354,787)	(1,268,395)
Property and equipment, net	232,217	284,082
Total noncurrent assets	232,217	284,082
TOTAL ASSETS	$ 3,249,890	$ 3,583,900
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable	$ 58,162	$ 70,534
Accrued liabilities	166,072	185,895
Unearned revenues	91,385	113,588
Total current liabilities	315,619	370,017
TOTAL LIABILITIES	315,619	370,017
NET ASSETS:		
Unrestricted	2,934,271	3,208,883
Restricted	-	5,000
TOTAL NET ASSETS	2,934,271	3,213,883
TOTAL LIABILITIES AND NET ASSETS	$ 3,249,890	$ 3,583,900

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

GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON **Schedule II**
SCHEDULES OF ACTIVITIES
YEAR ENDED AUGUST 31, 2017
(with Memorandum Totals for the Year Ended August 31, 2016)

				Totals	
		Unrestricted	Temporarily Restricted	2017	2016
REVENUES:					
Local support:					
5740	Other revenues from local sources	$ 239,084	$ -	$ 239,084	$ 372,360
5750	Revenue from cocurricular, enterprising services or activities	66,069	-	66,069	89,094
Total local support		305,153	-	305,153	461,454
State program revenues:					
5810	Foundation school program act revenues	-	7,240,711	7,240,711	7,120,118
5820	State program revenues distributed by the Texas Education Agency	-	33,270	33,270	10,149
5830	State program revenues from agencies other than Texas Education Agency	-	-	-	5,000
Total state program revenues		-	7,273,981	7,273,981	7,135,267
Federal program revenues:					
5920	Federal revenues distributed by the Texas Education Agency	-	835,628	835,628	736,496
Net assets released from restrictions:					
	Restrictions satisfied by payments	8,114,609	(8,114,609)	-	-
TOTAL REVENUES		8,419,762	(5,000)	8,414,762	8,333,217
EXPENSES:					
11	Instruction	3,960,550	-	3,960,550	3,760,779
13	Curriculum development and instructional staff development	81,003	-	81,003	87,326
23	School leadership	544,016	-	544,016	535,477
31	Guidance, couseling and evaluation services	264,992	-	264,992	221,446
32	Social work services	118,101	-	118,101	124,592
34	Student (pupil) transportation	163,489	-	163,489	174,027
35	Food services	384,870	-	384,870	351,597
36	Extracurricular activities	67,111	-	67,111	74,298
41	General administration	899,437	-	899,437	815,269
51	Plant maintenance and operations	1,764,843	-	1,764,843	1,591,957
52	Security and monitoring services	144,376	-	144,376	154,393
53	Data processing services	87,545	-	87,545	67,002
61	Community services	214,041	-	214,041	192,197
TOTAL EXPENSES		8,694,374	-	8,694,374	8,150,360
CHANGE IN NET ASSETS		(274,612)	(5,000)	(279,612)	182,857
NET ASSETS, BEGINNING OF YEAR		3,208,883	5,000	3,213,883	3,031,026
NET ASSETS, END OF YEAR		$ 2,934,271	-	$ 2,934,271	$ 3,213,883

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

GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON **Schedule III**
SCHEDULES OF CASH FLOWS
YEARS ENDED AUGUST 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (279,612)	$ 182,857
Adjustments to reconcile change in net assets to net cash (used in)/provided by operating activities:		
Depreciation	86,391	69,958
Changes in operating assets and liabilities:		
Grants receivable	116,329	(48,534)
Prepaid expenses	(41,632)	543
Other assets	(1,394)	-
Accounts payable	(12,372)	(887)
Accrued liabilities	(19,823)	(27,025)
Unearned revenue	(22,203)	(3,802)
Total adjustments	105,296	(9,747)
Net cash (used in)/provided by operating activities	(174,316)	173,110
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Building improvements and purchases of equipment	(34,530)	(134,899)
Proceeds from matured certificate of deposit	255,289	-
Reinvestment of earnings from certificate of deposit	(1,692)	(2,802)
Net cash provided by/(used in) investing activities	219,067	(137,701)
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,751	35,409
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,676,675	2,641,266
CASH AND CASH EQUIVALENTS, END OF YEAR	$2,721,426	$2,676,675

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS
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GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON **Schedule IV**
SCHEDULES OF EXPENSES
YEARS ENDED AUGUST 31, 2017 AND 2016

		TOTALS	
		2017	**2016**
EXPENSES:			
6100	Payroll costs	5,789,021	5,375,202
6200	Professional and contracted services	2,071,766	1,891,769
6300	Supplies and materials	440,772	518,759
6400	Other operating costs	392,815	364,630
		$ 8,694,374	$ 8,150,360

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

GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON
SCHEDULES OF CAPITAL ASSETS
AUGUST 31, 2017 AND 2016

Schedule V

	2017				2016			
	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	585,184	403,905	1,016,405	27,316	581,603	403,905	1,012,824
Construction in progress	-	30,946	-	30,946	-	-	-	-
Total capital assets	$ 34,646	$ 786,571	$ 765,787	$ 1,587,004	$ 34,646	$ 752,044	$ 765,787	$ 1,552,477

Reconciliation of Total Assets Shown on the Schedule of Capital Assets, see above, to the Schedule of Assets, Liabilities and Net Assets on page 26:

	2017 - Total		2016 - Total	
Building and Improvements:				
Per Schedule of Capital Assets (see schedule above)	$ 539,653		$ 539,653	
Less: Accumulated depreciation as of year end	(450,231)		(430,877)	
		$ 89,422		$ 108,776
Furniture and Equipment:				
Per Schedule of Capital Assets (see schedule above)	$ 1,016,405		$ 1,012,824	
Less: Accumulated depreciation as of year end	(904,556)	111,849	(837,518)	175,306
Construction in progress:		30,946		-
Per Schedule of Assets, Liabilities & Net Assets		$ 232,217		$ 284,082

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

GEORGE I. SANCHEZ CHARTER SCHOOL – HOUSTON
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2017

Schedule VI

	Budgeted Amounts			Actual Compared to Final Budgeted Amounts		Explanation (see references)	Final Compared to Original Budgeted Amounts		Explanation (see references)
	Original	Final	Actual Amounts	$ Variance	% Variance	Unaudited	$ Variance	% Variance	Unaudited
REVENUES:									
Local support:									
5740 Other revenues from local sources	$ 131,887	$ 174,185	$ 239,084	$ 64,899	37%	{a}	$ 42,298	32%	{f}
5750 Revenue from co-curricular, enterprising services or activities	45,523	34,645	66,069	31,424	91%	{a}	(10,878)	-24%	{g}
Total local support	177,410	208,830	305,153	96,323			31,420		
State program revenues:									
5810 Foundation school program act revenues	8,016,651	7,357,800	7,240,711	(117,089)	-2%		(658,851)	-8%	
5820 State program revenues distributed by the Texas Education Agency	5,500	9,040	33,270	24,230	268%	{b}	3,540	64%	{h}
Total state program revenues	8,022,151	7,366,840	7,273,981	(92,859)			(655,311)		
Federal program revenues:									
5920 Federal revenues distributed by the Texas Education Agency	799,612	837,086	835,628	(1,458)	0%		37,474	5%	
TOTAL REVENUES	8,999,173	8,412,756	8,414,762	2,006			(586,417)		
EXPENSES:									
11 Instruction	4,189,646	3,792,537	3,960,550	(168,013)	-4%		397,109	10%	{i}
13 Curriculum and instructional staff development	39,887	72,687	81,003	(8,316)	-11%	{c}	(32,800)	-45%	{j}
23 School leadership	603,433	540,433	544,016	(3,583)	-1%		63,000	12%	{i}
31 Guidance, couseling and evaluation services	281,908	297,908	264,992	32,916	11%	{d}	(16,000)	-5%	
32 Social work services	136,406	118,406	118,101	305	0%		18,000	15%	{i}
34 Student (pupil) transportation	100,519	160,519	163,489	(2,970)	-2%		(60,000)	-37%	{k}
35 Food services	360,459	414,088	384,870	29,218	7%		(53,629)	-13%	{i}
36 Cocurricular/extracurricular activities	63,500	83,000	67,111	15,889	19%	{d}	(19,500)	-23%	{j}
41 General administration	1,059,618	889,618	899,437	(9,819)	-1%		170,000	19%	{l}
51 Plant maintenance and operations	1,659,309	1,751,309	1,764,843	(13,534)	-1%		(92,000)	-5%	
52 Security and monitoring services	162,084	147,084	144,376	2,708	2%		15,000	10%	{m}
53 Data processing services	114,109	89,109	87,545	1,564	2%		25,000	28%	{m}
61 Community services	128,500	157,120	214,041	(56,921)	-36%	{e}	(28,620)	-18%	{j}
TOTAL EXPENSES	8,899,378	8,513,818	8,694,374	(180,556)			385,560		
CHANGE IN NET ASSETS	99,795	(101,062)	(279,612)	(178,550)			(200,857)		
NET ASSETS, BEGINNING OF YEAR	1,588,243	2,207,632	3,213,883	1,006,251			619,389		
NET ASSETS, END OF YEAR	$ 1,688,038	$ 2,106,570	$ 2,934,271	$ 827,701			$ 418,532		

Reference:

{a} Budget did not include additional local funds.
{b} Budget did not include Pre K grants.
{c} Underbudgeted cost.
{d} Local funds utilized in function 11 instead.
{e} Local grant expired. Underbudgeted cost.
{f} Additional funds from other local sources.
{g} Overestimated funds from the nutrition program.
{h} Underestimated funds from Pre K grants.
{i} Overbudgeted cost based on projected enrollment.
{j} Underbudgeted cost.
{k} Bus services added to the north campus.
{l} Overbudgeted for administrative and insurance costs.
{m} Overbudgeted costs for expansion.

SINGLE AUDIT SECTION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2017

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	2016-048046-002 SA/YPU	$ 97,589
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048180-002 SA/HIV	154,278
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048258-002 SA/HEI	83,790
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048537-002 SA/TRA	184,832
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048581-002 SA/TRA	269,804
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048376-002 SA/TRY	476,439
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048377-002 SA/TRY	357,987
Total Passed-Through Texas Department of State Health Services			1,624,719
Total - U.S. Department of Health and Human Services			1,624,719
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	17610101101804	299,166
Part A, Improving Basic Programs	84.010A	16610101101804	20,902
Part D, Prevention and Intervention Programs for Children and Youth who are Neglected, Delinquent, or At-risk	84.010A	17610103101804	2,697
Part D, Prevention and Intervention Programs for Children and Youth who are Neglected, Delinquent, or At-risk	84.010A	16610103101804	12
Total ESEA, Title I			322,777
ESEA, Title II, Preparing, Training, and Recruiting High Quality Teachers and Principals:			
Part A – Teacher and Principal Training and Recruiting	84.367A	17694501101804	42,319
Part A – Teacher and Principal Training and Recruiting	84.367A	16694501101804	665
Total ESEA Title II			42,984
ESEA, Title III, Language Instruction for Limited English Proficient and Immigrant Students:			
Part A – English Language Acquisition, Language Enhancement, and Academic Achievement	84.365A	17671001101804	$ 34,324

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, 2017

Part A – English Language Acquisition, Language Enhancement, and Academic Achievement – Houston	84.365A	16671001101804	$	1,750
Part A – English Language Acquisition, Language Enhancement, and Academic Achievement – Immigrants	84.365A	17671003101804		10,862
Total ESEA, Title III				46,936
IDEA, Part B, Special Education – Grants to States	84.027A	176600011018026600		77,077
Total IDEA, Part B				77,077
Grants for State Assessments and Related Activities	84.369A	69551602		1,165
Total Grants for State Assessments and Related Activities				1,165
Total Passed-Through Texas Education Agency				490,939
Passed-through Houston Community College				
Adult Education – Basic Grants to States	84.002	2116.8028.65013.405.800		678,709
Total Passed-through Houston Community College				678,709
Total - U.S. Department of Education				1,169,648
U.S. Department of Agriculture				
Passed-through Texas Education Agency:				
National School Lunch Program – Cash	10.555	71301701		235,871
National School Lunch Program - Cash	10.555	71301601		34,156
School Breakfast Program	10.553	71401701		44,283
School Breakfast Program	10.553	71401601		3,252
Noncash Assistance (Commodities)	10.555	00474		27,126
Total Passed-through - Texas Education Agency				344,688
Total - U.S. Department of Agriculture				344,688
Total Expenditure of Federal Awards			$	3,139,055

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, 2017

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, 2017. 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.

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2017

5. RECONCILIATION TO TEA REPORTING

Reconciliation of TEA - Federal:		
TEA Payment Report 2017		$ 724,971
Pass-Through TEA (per the Schedule)		
U.S. Department of Education	413,862	
U.S. Department of Agriculture	317,562	731,424
Difference		(6,453)
Accounts receivable 2016	(25,296)	
Accounts receivable 2017	31,749	6,453
Difference		$ -

Reconciliation of TEA - State		
TEA Payment Report 2017		$ 7,399,153
		7,399,153
FSP anticipated payment adjustment 2016-2017	4,751	
FSP revenue settled-up near final accrual 2017	(30,393)	
Accrued revenue - 4 days FSP GIS Houston 2017	(169,135)	
Reverse accrual - 8 days FSP GIS Houston 2016	320,080	
Deferred revenue of Pre-K Grant 2017	(131)	
Foundation School Program - Houston	7,273,981	7,399,153
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, 2017 and 2016, 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 December 5, 2017.

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

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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 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

Houston, Texas

December 5, 2017

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2017. 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.

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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, 2017.

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.



Houston, Texas
December 5, 2017

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2017

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, 2017

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, 2017

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, 2017

There were no prior year audit findings to report on.