

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

**Annual Financial and  
Compliance Audit**

**Years Ended August 31, 2019 and 2018**

**ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS**  
(A Texas Nonprofit Corporation)  
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**AUGUST 31, 2019 AND 2018**

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## 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, 2019 and 2018, 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.

**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, 2019 and 2018, 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 schedule of expenditures of federal awards on pages 26 through 27 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 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 January 17, 2020, 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.



Houston, Texas  
January 17, 2020

**ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS**

(A Texas Nonprofit Corporation)

**STATEMENTS OF FINANCIAL POSITION****AUGUST 31, 2019 AND 2018**

ASSETS:	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	\$ 2,173,316	\$ 1,421,785
Cash and cash equivalents, restricted	1,498,599	1,778,288
Grants receivable and reimbursable grant expenses	967,883	1,108,098
Prepaid expenses	275,338	172,299
Total current assets	<u>4,915,136</u>	<u>4,480,470</u>
NONCURRENT ASSETS:		
Land, property and equipment		
Land (non-depreciable)	175,800	175,800
Building and improvements	15,704,532	15,333,250
Furniture and equipment	3,463,352	3,058,299
Construction in progress	-	1,933
Less: accumulated depreciation	<u>(11,479,003)</u>	<u>(10,666,096)</u>
Land, property and equipment, net	7,864,681	7,903,186
Other assets	<u>48,414</u>	<u>35,464</u>
Total noncurrent assets	<u>7,913,095</u>	<u>7,938,650</u>
TOTAL ASSETS	<u>\$ 12,828,231</u>	<u>\$ 12,419,120</u>
LIABILITIES & NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable	\$ 336,805	\$ 410,706
Accrued liabilities	490,905	362,721
Unearned revenue	255,634	239,963
Bonds and notes payable, current portion	173,715	164,975
Liability under an interest rate swap contract, current portion	<u>34,504</u>	<u>37,475</u>
Total current liabilities	1,291,563	1,215,840
Bonds and notes payable, net of current portion	4,273,680	4,416,272
Liability under an interest rate swap contract, net of current portion	<u>31,891</u>	<u>66,151</u>
Total noncurrent liabilities	<u>4,305,571</u>	<u>4,482,423</u>
TOTAL LIABILITIES	<u>5,597,134</u>	<u>5,698,263</u>
NET ASSETS:		
Without donor restrictions	6,949,653	6,711,210
With donor restrictions	281,444	9,647
TOTAL NET ASSETS	<u>7,231,097</u>	<u>6,720,857</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,828,231</u>	<u>\$ 12,419,120</u>

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, 2019**

	Without donor restrictions	With donor restrictions	Total
<b>REVENUE</b>			
Federal grants	\$ 2,012,735	\$ 1,634,378	\$ 3,647,113
State, city, county, and other school grants	1,448,573	9,332,127	10,780,700
Fundraisers	298,389	-	298,389
Contributions	35,678	38,020	73,698
Property and rental income	2,381,464	-	2,381,464
Net assets released from restrictions	10,732,728	(10,732,728)	-
Other	292,862	-	292,862
<b>TOTAL REVENUE</b>	<b>17,202,429</b>	<b>271,797</b>	<b>17,474,226</b>
<b>EXPENDITURES</b>			
Program services:			
Health and human services	3,050,685	-	3,050,685
Educational	11,766,073	-	11,766,073
<b>Total program services</b>	<b>14,816,758</b>	<b>-</b>	<b>14,816,758</b>
Support services:			
Management and general	2,089,370	-	2,089,370
Fundraising activities	57,858	-	57,858
<b>Total support services</b>	<b>2,147,228</b>	<b>-</b>	<b>2,147,228</b>
<b>TOTAL EXPENDITURES</b>	<b>16,963,986</b>	<b>-</b>	<b>16,963,986</b>
<b>CHANGE IN NET ASSETS</b>	<b>238,443</b>	<b>271,797</b>	<b>510,240</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>6,711,210</b>	<b>9,647</b>	<b>6,720,857</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 6,949,653</b>	<b>\$ 281,444</b>	<b>\$ 7,231,097</b>

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, 2018**

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	Without donor restrictions	With donor restrictions	Total
<b>REVENUE</b>			
Federal grants	\$ 2,563,313	\$ 1,069,219	\$ 3,632,532
State, city, county, and other school grants	1,412,549	8,377,633	9,790,182
Fundraisers	317,235	-	317,235
Contributions	186,094	3,898	189,992
Property and rental income	2,336,706	-	2,336,706
Net assets released from restrictions	9,483,647	(9,483,647)	-
Other	133,314	-	133,314
<b>TOTAL REVENUE</b>	<b>16,432,858</b>	<b>(32,897)</b>	<b>16,399,961</b>
<b>EXPENDITURES</b>			
Program services:			
Health and human services	2,937,629	-	2,937,629
Educational	11,070,484	-	11,070,484
<b>Total program services</b>	<b>14,008,113</b>	<b>-</b>	<b>14,008,113</b>
Support services:			
Management and general	2,164,794	-	2,164,794
Fundraising activities	117,365	-	117,365
<b>Total support services</b>	<b>2,282,159</b>	<b>-</b>	<b>2,282,159</b>
<b>TOTAL EXPENDITURES</b>	<b>16,290,272</b>	<b>-</b>	<b>16,290,272</b>
<b>CHANGE IN NET ASSETS</b>	<b>142,586</b>	<b>(32,897)</b>	<b>109,689</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>6,568,624</b>	<b>42,544</b>	<b>6,611,168</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 6,711,210</b>	<b>\$ 9,647</b>	<b>\$ 6,720,857</b>

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, 2019**

	<u>Health and Human Services</u>			<u>Educational</u>			<u>Supporting Services</u>				Total
	Residential/ Outpatient	Prevention/ Intervention	Sub-Total Health and Human Services	George I. Sanchez Houston	Adelante	Sub-Total Educational	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 1,535,605	\$ 428,589	\$ 1,964,194	\$ 6,203,256	\$ 504,360	\$ 6,707,616	\$ 8,671,810	\$ 418,933	\$ -	\$ 418,933	\$ 9,090,743
Employee fringe benefits	140,389	40,145	180,534	790,914	40,338	831,252	1,011,786	50,480	-	50,480	1,062,266
Payroll taxes	109,083	30,024	139,107	109,412	37,072	146,484	285,591	23,062	-	23,062	308,653
Professional fees and contract services payments	127,011	8,124	135,135	166,395	16,983	183,378	318,513	13,269	57,858	71,127	389,640
Food, clothing and other	29,907	-	29,907	281,431	-	281,431	311,338	-	-	-	311,338
Insurance - other	42,710	16,966	59,676	173,722	15,717	189,439	249,115	14,802	-	14,802	263,917
Equipment rental/maintenance	61,315	23,150	84,465	115,096	-	115,096	199,561	376,528	-	376,528	576,089
Rent-office	112,588	-	112,588	2,367,951	112,990	2,480,941	2,593,529	53,904	-	53,904	2,647,433
Supplies	115,433	14,313	129,746	356,944	15,714	372,658	502,404	13,568	-	13,568	515,972
Travel/seminars	23,832	6,818	30,650	39,169	1,787	40,956	71,606	42,306	-	42,306	113,912
Utilities	57,841	15,681	73,522	59,893	1,249	61,142	134,664	250,276	-	250,276	384,940
Miscellaneous	79,599	18,479	98,078	52,497	16,021	68,518	166,596	123,800	-	123,800	290,396
Interest/bank charges	-	-	-	-	-	-	-	177,780	-	177,780	177,780
Depreciation of property and equipment	6,203	6,880	13,083	272,790	14,372	287,162	300,245	530,662	-	530,662	830,907
<b>TOTAL EXPENSES</b>	<b>\$ 2,441,516</b>	<b>\$ 609,169</b>	<b>\$ 3,050,685</b>	<b>\$ 10,989,470</b>	<b>\$ 776,603</b>	<b>\$ 11,766,073</b>	<b>\$ 14,816,758</b>	<b>\$ 2,089,370</b>	<b>\$ 57,858</b>	<b>\$ 2,147,228</b>	<b>\$ 16,963,986</b>

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, 2018**

	Health and Human Services			Educational			Supporting Services				Total
	Residential/ Outpatient	Prevention/ Intervention	Sub-Total Health and Human Services	George I. Sanchez Houston	Adelante	Sub-Total Educational	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 1,451,147	\$ 450,570	\$ 1,901,717	\$ 5,700,947	\$ 553,957	\$ 6,254,904	\$ 8,156,621	\$ 474,046	\$ -	\$ 474,046	\$ 8,630,667
Employee fringe benefits	127,101	40,637	167,738	749,882	44,869	794,751	962,489	49,031	-	49,031	1,011,520
Payroll taxes	104,440	32,323	136,763	109,812	39,937	149,749	286,512	27,361	-	27,361	313,873
Professional fees and contract services payments	153,211	11,538	164,749	208,481	5,543	214,024	378,773	16,093	117,365	133,458	512,231
Food, clothing and other	40,133	173	40,306	316,971	-	316,971	357,277	-	-	-	357,277
Insurance - other	38,160	17,149	55,309	159,857	15,952	175,809	231,118	10,433	-	10,433	241,551
Equipment rental/maintenance	63,154	22,999	86,153	45,913	1,465	47,378	133,531	381,150	-	381,150	514,681
Rent-office	107,155	-	107,155	2,341,328	97,713	2,439,041	2,546,196	52,104	-	52,104	2,598,300
Supplies	65,118	19,163	84,281	294,822	6,768	301,590	385,871	7,082	-	7,082	392,953
Travel/seminars	20,840	11,252	32,092	77,545	1,933	79,478	111,570	100,903	-	100,903	212,473
Utilities	61,041	17,913	78,954	16,156	3,083	19,239	98,193	278,123	-	278,123	376,316
Miscellaneous	45,124	28,808	73,932	71,564	4,884	76,448	150,380	92,045	-	92,045	242,425
Interest/bank charges	-	-	-	-	-	-	-	139,657	-	139,657	139,657
Depreciation of property and equipment	3,343	5,137	8,480	201,102	-	201,102	209,582	536,766	-	536,766	746,348
<b>TOTAL EXPENSES</b>	<u>\$ 2,279,967</u>	<u>\$ 657,662</u>	<u>\$ 2,937,629</u>	<u>\$ 10,294,380</u>	<u>\$ 776,104</u>	<u>\$ 11,070,484</u>	<u>\$ 14,008,113</u>	<u>\$ 2,164,794</u>	<u>\$ 117,365</u>	<u>\$ 2,282,159</u>	<u>\$ 16,290,272</u>

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, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 510,240	\$ 109,689
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	830,907	746,348
Change in the fair value of liability under an interest rate swap contract	18,227	(921)
Change in operating assets and liabilities:		
Grants receivable	140,215	(505,096)
Prepaid expenses	(103,039)	(39,874)
Other assets	(12,950)	(15,500)
Accounts payable	(73,901)	252,721
Accrued liabilities	128,184	21,361
Unearned revenue	15,671	(1,756)
Total adjustments	943,314	457,283
Net cash provided by operating activities	1,453,554	566,972
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(792,402)	(884,268)
Net cash used in investing activities	(792,402)	(884,268)
<b>CASH FLOWS USED BY FINANCING ACTIVITIES:</b>		
Decrease/(increase) in cash and cash equivalents, restricted	279,689	953,680
Payments to a counterparty under an interest rate swap contract	(55,458)	(70,268)
Repayment of borrowings	(133,852)	(129,256)
Net cash provided by financing activities	90,379	754,156
Net increase in cash and cash equivalents	751,531	436,860
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	1,421,785	984,925
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 2,173,316	\$ 1,421,785
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid during the year	\$ 159,553	\$ 140,578

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2019 AND 2018**

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**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.

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:

**Net assets without donor restrictions** – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of AAMA. Net assets without donor restrictions may be designated for any specific purpose by action of the Board of Directors.

**Net assets with donor restrictions** – 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. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. AAMA did not have any assets with donor restrictions as of August 31, 2019 and 2018.

In addition, AAMA is required by FASB ASC Topic 958-205, *Financial Statements of Not-for-Profit Organization*, to present statements of activities 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2019 AND 2018**

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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 generally 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 the conditions on which they depend are substantially met.

Cash and Cash Equivalents

AAMA considers all monies in banks and highly liquid investments with maturities of three months or less from the 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, 2019 and 2018 was \$3,671,915 and \$3,200,073, respectively.

As of August 31, 2019 and 2018, AAMA had restricted cash and cash equivalents of \$1,498,599 and \$1,778,288, 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 and Reimbursable Grant Expenses

Grants receivable and reimbursable grant expenses represent revenues earned and 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 as of August 31, 2019 and 2018 to be fully collectible. Accordingly, no allowance for delinquent grants receivable was made in the accompanying financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2019 AND 2018**

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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 a 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 the 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 are 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2019 AND 2018**

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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% and 82% of AAMA's total revenues for the years ended August 31, 2019 and 2018, respectively, were 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 the 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, including those specified by the Texas Health and Human Services Commission ("HHSC"), for a five percent (5%) match by the donee.

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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, 2019 and 2018, 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 2016 - 2018 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.

Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$3,671,915	\$3,200,073
Grants receivable and reimbursable grant expenses	967,883	1,108,098
Total	<u>\$4,639,798</u>	<u>\$4,308,171</u>

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As part of AAMA's liquidity management, the organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due, both as they pertain to the AAMA's school program and other program areas. In addition, AAMA and/ or George I. Sanchez School (GIS), as the case may be, invests its cash in money market accounts and other short-term investments to be used, among other purposes, for planned grade level expansion activities and accumulating funds in anticipation of two mortgages being refinanced in 2021. AAMA also currently has a \$500,000 line-of-credit available from one of its banks that can be used if any unexpected liquidity events were to occur.

New Accounting Pronouncement Adopted

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958)*, which amended the requirements for financial statements and notes for not-for-profit entities in order to improve the usefulness of the information provided and reduce the complexities or costs for preparers or users of financial statements. AAMA adopted ASU 2016-14 during its fiscal year ended August 31, 2019 retrospectively. The impact of adoption resulted in the classification of net assets on the statement of financial position and statement of activities into two classes of net assets, with and without donor restrictions. AAMA also added disclosure for the liquidity and availability of financial assets at the statement of financial position date to meet cash needs for general expenditures within one year. The adoption of ASU 2016-14 had no impact on AAMA's total revenues, revenues in excess of expenses, or total net assets.

New Accounting Pronouncement In Consideration

In February 2016, the FASB issued 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 the 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*. This update provided clarified guidance on certain cash flow classification issues; and will be effective for the Organization's 2020 financial statements. Management is currently evaluating the impact this update will have on the Organization'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.



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**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 with poor academic performance 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-Kindergarten and the 6<sup>th</sup> through the 12<sup>th</sup> grades on two campuses in Houston, Texas.

Adelante – This program provides adult basic education including GED, ESL, Civics, Family Literacy, and workforce development programs, including, Bank Teller certification classes and a Work and Learn Center for 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.

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The total cash maintained by AAMA in its banks as of August 31, 2019 and 2018, which was subject to custodial credit risk, was \$3,722,919 and \$3,353,913, respectively. As of August 31, 2019 and 2018, AAMA's deposits at one of its banks included the sum of \$477,000 and \$868,600, respectively, in funds collateralized by U.S. Treasury Bills which provided additional coverage leaving the un-insured balance of \$1,935,877 and \$1,263,965 as of August 31, 2019 and 2018, 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.*

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, 2019 and 2018, 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.

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**5. PROPERTY AND EQUIPMENT**

Property and equipment as of August 31, 2019 and 2018 were as follows:

	<b>2019</b>		
	<b>GIS</b>	<b>Non-GIS</b>	<b>Total</b>
Land (non-depreciable)	\$ -	\$ 175,800	\$ 175,800
Buildings and improvements	1,078,161	14,626,371	15,704,532
Furniture and equipment	1,833,693	1,629,659	3,463,352
Construction in progress	-	-	-
	2,911,854	16,431,830	19,343,684
Less: accumulated depreciation on depreciable assets	1,809,711	9,669,292	11,479,003
Property and equipment, net	\$ 1,102,143	\$ 6,762,538	\$ 7,864,681
	<b>2018</b>		
	<b>GIS</b>	<b>Non-GIS</b>	<b>Total</b>
Land (non-depreciable)	\$ -	\$ 175,800	\$ 175,800
Buildings and improvements	790,683	14,542,567	15,333,250
Furniture and equipment	1,468,536	1,589,763	3,058,299
Construction in progress	-	1,933	1,933
	2,259,219	16,310,063	18,569,282
Less: accumulated depreciation on depreciable assets	1,554,921	9,111,175	10,666,096
Property and equipment, net	\$ 704,298	\$ 7,198,888	\$ 7,903,186

Depreciation expense for the years ended August 31, 2019 and 2018 was \$830,907 and \$746,348, 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 in the report issued January 17, 2020.

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**6. ACCRUED SALARIES**

During August 31, 2019 and 2018, AAMA accrued \$170,937 to be paid after September 1, 2019 and \$178,696 after September 1, 2018 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 2019 and 2018 amounted to \$252,798 and \$243,641, respectively. Office equipment rent expense for 2019 and 2018 amounted to \$29,364 and \$26,388, respectively.

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

<u>Year Ended August 31,</u>	<u>Amount</u>
2020	\$ 201,448

**8. BONDS AND NOTES PAYABLE**

Bonds and notes payable to a bank at August 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
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 September 2021.	\$ 1,535,601	\$ 1,617,946
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%. Outstanding principal and interest due in September 2021.	<u>2,911,794</u>	<u>2,963,301</u>
Total debt	4,447,395	4,581,247
Less current portion	<u>173,715</u>	<u>164,975</u>
	<u>\$ 4,273,680</u>	<u>\$ 4,416,272</u>

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

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The future maturities of AAMA's bonds and notes payable as of August 31, 2019 were as follows:

Year Ended August 31,	Amount
2020	\$ 173,715
2021	183,466
2022	4,090,214
	<u>\$ 4,447,395</u>

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

For the years ended August 31, 2019 and 2018, AAMA recorded interest expense of \$177,780 and \$139,657, respectively. No interest expense was capitalized for the years ended August 31, 2019 and 2018.

**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, 2019 and 2018, the notional principal amounts under the interest rate swap contract, amounted to \$1,535,601 and \$1,617,946, respectively. The estimated fair value of the interest rate swap contract was a liability of \$66,395 and \$103,626, and is included in the accompanying statements of financial position as of August 31, 2019 and 2018, respectively. Of these totals, \$34,504 and \$37,475 represent amounts that are currently due as of August 31, 2019 and 2018, respectively.

The change in fair value on this interest rate swap agreement was a loss of \$18,227 for the year ended August 31, 2019 and a gain of \$921 for the year ended August 31, 2018, respectively, and is included in the statements of activities.

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The following table represents the interest rate swap liability, measured at fair value, on a recurring basis at August 31, 2019 and 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swap liability at August 31, 2019	\$ -	\$66,395	\$ -	\$66,395
Interest rate swap liability at August 31, 2018	\$ -	\$103,626	\$ -	\$103,626

For the valuation of the interest rate swap at August 31, 2019 and 2018, 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 the definition of Levels 1, 2 and 3.

**10. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions amounting to \$281,444 and \$9,647, respectively, as of August 31, 2019 and 2018, and summarized below, represent contributions to AAMA, which the donors have restricted for use in future periods:

	<u>Year Ended August 31,</u>	
	2019	2018
Restricted for capital improvement	\$ 7,893	\$ 1,080
Restricted for food services	205,062	-
Restricted for special education	62,777	-
Restricted for scholarships	5,712	8,567
Total restricted net assets	\$ 281,444	\$ 9,647

During the years ended August 31, 2019 and 2018, net assets of \$10,732,728 and \$9,483,647, respectively, were released from donors' restrictions by satisfying the restrictions.

**11. 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

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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](http://www.trs.state.tx.us), under the TRS Publications Heading.

The risk of participating in this multiemployer defined benefit pension plan is 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, 2019 and 2018:

<u>Name of Pension Fund</u>	<u>EIN and Plan Number</u>	(in thousands)		Obligations		% funded	
		2019	2018	2019	2018	2019	2018
		TRS	N/A	\$181,800,159	\$176,942,454	\$209,961,325	\$209,611,329

The following presents information about AAMA's involvement in such multiemployer pension plan for the year ended August 31, 2019:

<u>Collective Bargaining Agreement</u>	Ended August 31,		<u>More than 5% of</u>	<u>FIP/RP Status</u>	<u>Surcharge</u>
	<u>2019</u>	<u>2018</u>	<u>Total Contributions</u>		<u>Imposed</u>
N/A	\$786,164	\$718,777	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 1.25% for TRS Care. George I. Sanchez charter schools employees' contributions to the TRS System were as follows:

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	<b>Year Ended August 31</b>	
	2019	2018
TRS Retirement	\$ 489,522	\$ 449,987
TRS Care	41,324	37,985
	\$ 530,846	\$ 487,972

Under provisions in the State of Texas law, AAMA is required to pay a 0.75% 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:

	<b>Year Ended August 31</b>	
	2019	2018
TRS Entity Fee	\$ 47,683	\$ 43,832
TRS Entity Payment for Non-OASDI Members	95,352	87,661
	\$ 143,035	\$ 131,493

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 1.25% 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:

	<b>Year Ended August 31</b>	
	2019	2018
TRS Retirement	\$ 96,789	\$ 85,932
TRS Care	15,664	13,381
	\$ 112,453	\$ 99,313

**12. 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, 2019 and 2018 amounted to \$183,389 and \$153,237, respectively.



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**13. HEALTH CARE COVERAGE**

During the years ended August 31, 2019 and 2018, employees of AAMA were covered by a health insurance plan (the Plan). During the fiscal year 2019, AAMA's contribution ranged from \$451 to \$1,058 per month per employee to the Plan based on coverage. During the fiscal year 2018, AAMA's contribution ranged from \$451 to \$1,058 per month per employee to the Plan based on coverage.

**14. 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, 2019 and 2018, AAMA had insurance policy coverage as follows:

	<b>Year Ended August 31,</b>	
	<b>2019</b>	<b>2018</b>
Buildings	\$ 16,683,969	\$ 16,921,059
Personal property	3,017,780	3,107,000
Business income/interruption	4,590,000	4,215,000
Commercial automobile	16,000,000	16,000,000
General and professional liability	16,000,000	16,000,000
Sexual abuse (Aggregate)	3,000,000	3,000,000
Directors and officers/Employment practice	2,000,000	2,000,000
Commercial crime	500,000	500,000
Lead 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

**15. 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 \$11,920 and \$10,976 for fiscal years ended August 31, 2019 and 2018, respectively.

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**16. 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 2019 and 2018 financial statements of AAMA.

**17. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 17, 2020, 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.

**SINGLE AUDIT SECTION**

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED AUGUST 31, 2019**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through or Grantor's Number	Total Federal Expenditures
<b>U.S. Department of Health and Human Services</b>			
Passed-through Texas Department of State Health Services:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048046-003 SA/YPU	\$ 76,408
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048180-003 SA/HIV	89,998
Block Grants for Prevention and Treatment of Substance Abuse	93,788	2016-048180-003 SA/HIV	41,462
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048258-003 SA/HEI	68,083
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048537-003 SA/TRA	210,990
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048581-003 SA/TRA	300,066
Block Grants for Prevention and Treatment of Substance Abuse	93.788	2016-048581-003 SA/TRA	185,737
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048376-003 SA/TRY	372,927
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2016-048377-003 SA/TRY	400,463
Total Passed-Through Texas Department of State Health Services			<u>1,746,134</u>
<b>Total - U.S. Department of Health and Human Services</b>			<u>1,746,134</u>
<b>U.S. Department of Education</b>			
Passed-Through Texas Education Agency:			
ESEA, Title I, Grants to Local Educational Agencies:			
Part A, Improving Basic Programs	84.010A	18610101101804	53,209
Part A, Improving Basic Programs	84.010A	19610101101804	356,415
Part D, Prevention and Intervention Programs for Children and Youth who are Neglected, Delinquent, or At-risk	84.010A	18610103101804	12,438
1003 School Improvement	84.010A	19610141101804	124,191
Total ESEA, Title I			<u>546,253</u>
ESEA, Title II, Preparing, Training, and Recruiting High Quality Teachers and Principals:			
Part A – Teacher and Principal Training and Recruiting	84.367A	18694501101804	1,437
Part A – Teacher and Principal Training and Recruiting	84.367A	19694501101804	34,822
Total ESEA Title II			<u>36,259</u>
ESEA, Title III, Language Instruction for Limited English Proficient and Immigrant Students:			
Part A – English Language Acquisition, Language Enhancement, and Academic Achievement	84.365A	18671001101804	7,097

*Continue*

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

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONT'D**  
**YEAR ENDED AUGUST 31, 2019**

Part A – English Language Acquisition, Language Enhancement, and Academic Achievement – Houston	84.365A	19671001101804	\$ <u>31,117</u>
Total ESEA, Title III			<u>38,214</u>
IDEA, Part B, Special Education – Grants to States	84.027A	196610011018026610	<u>86,748</u>
Total IDEA, Part B			<u>86,748</u>
ESEA, Title IV, Part A – Subpart 1, Student Support and Academic Enrichment Program	84.424A	18680101101804	<u>362</u>
ESEA, Title IV, Part A – Subpart 1, Student Support and Academic Enrichment Program	84.424A	19680101101804	<u>22,825</u>
Total ESEA, Title IV			<u>23,187</u>
Grants for State Assessments and Related Activities	84.369A	69551802	<u>2,503</u>
Total Grants for State Assessments and Related Activities			<u>2,503</u>
Total Passed-Through Texas Education Agency			<u>733,164</u>
Passed-through Houston Community College			
Adult Education – Basic Grants to States	84.002	2118.8028.65013.405. 800	<u>266,601</u>
Adult Education and Family Literacy Act	84.002A	224-19	<u>311,444</u>
Total Passed-through HGAC Workforce Solutions			<u>578,045</u>
<b>Total - U.S. Department of Education</b>			<u>1,311,209</u>
<b>U.S. Department of Agriculture</b>			
Passed-through Texas Education Agency:			
National School Lunch Program – Cash	10.555	71301801	47,023
National School Lunch Program - Cash	10.555	71301901	322,474
School Breakfast Program	10.553	71401801	20,260
School Breakfast Program	10.553	71401901	171,147
Noncash Assistance (Commodities)	10.555	00474	<u>28,866</u>
Total Passed-through - Texas Education Agency			<u>589,770</u>
<b>Total - U.S. Department of Agriculture</b>			<u>589,770</u>
<b>Total Expenditure of Federal Awards</b>			<u>\$ <u>3,647,113</u></u>

*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, 2019**

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**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, 2019. 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, 2019**

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**5. RECONCILIATION TO TEA REPORTING**

Reconciliation of TEA - Federal:

TEA Payment Report 2019	\$	1,238,708
Pass-Through TEA (per the Schedule)		
U.S. Department of Education	646,416	
U.S. Department of Agriculture	560,904	1,207,320
Difference		31,388
Accounts receivable 2018	(96,928)	
Accounts receivable 2019	65,540	(31,388)
Difference	\$	<u>-</u>

Reconciliation of TEA - State

TEA Payment Report 2019	\$	9,219,181
		<u>9,219,181</u>
FSP accounts receivable 2018	68,640	
FSP Estimated Accrued for 2019	(11,000)	
Reversed FSP revenue settled-up final 2018	(164,955)	
Accrued revenue - 5 days FSP GIS Houston 2019	(242,419)	
Reversed accrual - 5 days FSP GIS Houston 2018	234,141	
Reversed deferred revenue of Pre-K Grant 2018	2,647	
Foundation School Program - Houston	9,332,127	9,219,181
Difference	\$	<u>-</u>



**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, 2019 and 2018, 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 January 17, 2020.

**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.



## 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.



Houston, Texas  
January 17, 2020



**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, 2019. 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, 2019.

***Other Matter***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item No. 2019-001.

Our opinion on each major federal program is not modified with respect to these matters. AAMA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. AAMA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***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

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, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-001, which we consider to be a significant deficiency.

AAMA's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. AAMA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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  
January 17, 2020

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED AUGUST 31, 2019**

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**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?   | Yes        |
| 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? | Yes        |
| 4. Identification of major programs:   |            |

Federal - CFDA Number      Name of Federal Program or Cluster

93.788 / 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, 2019**

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**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, 2019**

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

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

**Finding No. 2019-001: Compliance with Reporting Requirements**

<u><b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b></u>	<b>Questioned Costs</b>
<b>Prevention and Treatment of Substance Abuse Block Grants – CFDA 93.788 / 93.959</b>	<b>None</b>

**Condition:** During our review of AAMA's compliance with grant reporting requirements, we noted that the following reports and documents were submitted later than the required due dates stipulated in the grant agreements:

Report/Document Title	Related Program	Report/Document Actual Submission Date	Submission Date per Grant Agreement	Number of Day(s) Late
Quarterly/Monthly Performance reports	HIV Early Intervention Services (SA/HEI)	August 9, 2019	June 15, 2019	55
Quarterly/Monthly Performance reports	HIV Early Intervention Services (SA/HEI)	September 16, 2019	September 15, 2019	1
CMBHS Security Attestation Form	All Prevention and Treatment of Substance Abuse Block Grant Programs in AAMA	November 12, 2018	September 15, 2018	58

**Criteria:** In accordance with the terms of the grant agreements, AAMA was required to submit certain reports and documents as stipulated in the grant agreements with HHSC.

**Cause:** AAMA's procedures related to the preparation and submission of HHSC's grant reports were not sufficient to ensure that these reports were submitted by the due dates.

**Effect:** With respect to the instances noted above, AAMA did not comply with the terms of the grant agreements.

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

**Views of Responsible Officials and Planned Corrective Actions:** See management's corrective action plan on page 38.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS**  
**YEAR ENDED AUGUST 31, 2019**

**Finding No. 2018-001: Compliance with Reporting Requirements**

<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>	<b>Questioned</b>
<b>Prevention and Treatment of Substance Abuse Block Grants –</b>	<b>Costs</b>
<b>CFDA 93.959</b>	<b>None</b>

**Condition:** During our review of AAMA's compliance with grant reporting requirements, we noted that the following reports and documents were submitted later than the required due dates stipulated in the grant agreements:

Report/Document Title	Related Program	Report/Document Actual Submission Date	Submission Date per Grant Agreement	Number of Day(s) Late
CMBHS Security Attestation Form	All Prevention and Treatment of Substance Abuse Block Grant Programs in AAMA	April 4, 2018	March 15, 2018	20
Substance Abuse Prevention Program Organization Staffing Form and Program Director's CPS Certificate	Youth Prevention - Universal (SA/YPU)	September 27, 2017	September 15, 2017	12
Curriculum Implementation Plan (Spring)	Youth Prevention - Universal (SA/YPU)	February 1, 2018	January 31, 2018	1
Curriculum Outcome Measures Reports	Youth Prevention - Universal (SA/YPU)	Various	Various	3 to 9

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

**Current status:** Corrective action was taken, but the same finding repeated as described in Finding No. 2019-001 in fiscal year 2019.



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

**MANAGEMENTS' CORRECTION ACTION PLAN**  
**YEAR ENDED AUGUST 31, 2019**

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**Officers**

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HEB  
Board Chairman

Arturo Michel  
Husch Blackwell  
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Benjamin Hernandez  
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Amegy Bank

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University of Houston

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Comcast Cable

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Maria (Cris) Garza ✦  
Raul Dominguez ✦

January 13, 2020

Subject: Finding No. 2019-001 – Compliance with Reporting Requirements /  
Prevention and Treatment of Substance Abuse Block Grants –  
CFDA 93.788 / 93.959

With respect to McConnell & Jones' August 31, 2019 Schedule of Findings and Questioned Costs as noted above, the Association for the Advancement of Mexican-Americans respectfully submits the following Correction Action Plan:

- AAMA's Executive Officers have met with the Prevention and Counseling Director to stress the critical importance of complying with all reporting due dates, regardless of the resources that may be necessary to do so.
- All Prevention and Counseling due dates of whatever nature will be placed on the Outlook calendars of those employees and backups who have been assigned the responsibility for submitting HHSC and other grantor required reports on time.
- Concurrently with the above, reminders ten (10) days prior to the respective due dates will be placed on the Outlook calendars of each responsible employee and backup.
- If the responsible employee or backup believes that additional time is needed to submit the required report, such employee will submit a request to the proper agency or grantor at least ten (10) days prior to the original due date.
- Depending upon the type of report being submitted, the following individuals in the order assigned, will assume reporting responsibilities: **(1)** Program Manager / Quality Assurance Manager; **(2)** Program Coordinator / Office Manager; **(3)** Quality Assurance Manager (if not primarily responsible) and; **(4)** Director of Prevention and Counseling.
- The above Correction Action Plan was implemented on or before December 13, 2019.

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS

  
James R. Dunn CPA, CFE, CFF, CGMA  
Chief Financial Officer