

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

**Annual Financial and
Compliance Audit**

**Years Ended
August 31, 2023 and 2022**

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS

(A Texas Nonprofit Corporation)

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the 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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AAMA as of August 31, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AAMA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AAMA's ability to continue as a going concern for within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,



as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 AAMA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AAMA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with US GAAS. In our opinion, such information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Emphasis of Matter

As discussed in Note 1 to the financial statements, the Association has recorded a correction to net assets related to unrecorded accounts payable. Our opinion is not modified with respect to this matters.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2024 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 solely 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 the effectiveness of AAMA's 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 LLP

Houston, Texas

January 26, 2024

ASSOCIATION FOR THE ADVANCEMENT OF MEXICAN-AMERICANS

(A Texas Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION**AUGUST 31, 2023 AND 2022**

ASSETS:	2023	2022
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,539,694	\$ 3,362,277
Grants receivable and reimbursable grant expenses	2,192,864	2,912,093
Other accounts receivable	-	434,591
Prepaid expenses	204,053	188,707
SWAP assets, current portion	102,498	40,542
Total current assets	5,039,109	6,938,210
NONCURRENT ASSETS:		
Land, property and equipment		
Land (non-depreciable)	933,749	175,800
Building and improvements	19,996,268	16,250,077
Furniture and equipment	4,634,167	4,307,660
Less: accumulated depreciation	(14,923,081)	(13,969,697)
Land, property and equipment, net	10,641,103	6,763,840
Other assets:		
Right-of-use-asset - operating	581,204	-
Noncurrent assets	61,318	46,868
SWAP assets, net of current portion	679,885	189,715
Total other assets	1,322,407	236,583
TOTAL ASSETS	\$ 17,002,619	\$ 13,938,633
LIABILITIES & NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable	\$ 94,800	\$ 100,066
Accrued liabilities	749,523	790,488
Unearned revenue	386,266	250,453
Lease liabilities, current	262,410	-
Bonds and notes payable, current portion	544,039	161,600
Total current liabilities	2,037,038	1,302,607
LONG-TERM LIABILITIES:		
Lease liabilities, net of current portion	318,794	-
Bonds and notes payable, net of current portion	6,295,912	3,860,002
Total long-term liabilities	6,614,706	3,860,002
TOTAL LIABILITIES	8,651,744	5,162,609
NET ASSETS:		
Without donor restrictions	8,069,551	8,287,107
With donor restrictions	281,324	488,917
TOTAL NET ASSETS	8,350,875	8,776,024
TOTAL LIABILITIES AND NET ASSETS	\$ 17,002,619	\$ 13,938,633

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, 2023

	Without donor restrictions	With donor restrictions	Total
REVENUE AND OTHER SUPPORT			
Federal grants	\$ -	\$ 9,778,351	\$ 9,778,351
State, city, county, and other school grants	-	10,849,297	10,849,297
Fundraisers	207,596	-	207,596
Contributions	98,851	-	98,851
Other	1,482,222	-	1,482,222
Net assets released from restrictions	20,835,241	(20,835,241)	-
TOTAL REVENUE AND OTHER SUPPORT	22,623,910	(207,593)	22,416,317
EXPENSES			
Program services:			
Health and human services	4,090,315	-	4,090,315
Educational	17,384,344	-	17,384,344
Total program services	21,474,659	-	21,474,659
Support services:			
Management and general	789,018	-	789,018
Fundraising activities	577,789	-	577,789
Total support services	1,366,807	-	1,366,807
TOTAL EXPENSES	22,841,466	-	22,841,466
CHANGE IN NET ASSETS	(217,556)	(207,593)	(425,149)
NET ASSETS, BEGINNING OF YEAR, Restated	8,287,107	488,917	8,776,024
NET ASSETS, END OF YEAR	\$ 8,069,551	\$ 281,324	\$ 8,350,875

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, 2022

	Without donor restrictions	With donor restrictions	Total
REVENUE AND OTHER SUPPORT			
Federal grants	\$ 2,119,282	\$ 5,339,445	\$ 7,458,727
State, city, county, and other school grants	1,315,694	10,051,905	11,367,599
Fundraisers	198,809	-	198,809
Contributions	999,460	-	999,460
Other	392,899	-	392,899
Net assets released from restrictions	15,413,692	(15,413,692)	-
TOTAL REVENUE AND OTHER SUPPORT	20,439,836	(22,342)	20,417,494
EXPENSES			
Program services:			
Health and human services	3,612,401	-	3,612,401
Educational	15,062,328	-	15,062,328
Total program services	18,674,729	-	18,674,729
Support services:			
Management and general	952,782	-	952,782
Fundraising activities	449,139	-	449,139
Total support services	1,401,921	-	1,401,921
TOTAL EXPENSES	20,076,650	-	20,076,650
CHANGE IN NET ASSETS	363,186	(22,342)	340,844
NET ASSETS, BEGINNING OF YEAR	7,923,921	511,259	8,435,180
NET ASSETS, END OF YEAR, Restated	\$ 8,287,107	\$ 488,917	\$ 8,776,024

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, 2023

	Health and Human Services	Educational					Supporting Services				
		George I. Sanchez Houston	Early Childhood Development Center	Adelante	Work & Learn Center	Sub-Total Educational	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	\$ 2,284,150	\$ 6,677,573	\$ 355,399	\$ 495,304	\$ 192,920	\$ 7,721,196	\$ 10,005,346	\$ -	\$ 255,993	\$ 255,993	\$ 10,261,339
Employee fringe benefits	163,750	966,793	18,270	49,594	13,561	1,048,218	1,211,968	-	14,910	14,910	1,226,878
Payroll taxes	168,838	108,096	26,325	36,374	14,111	184,906	353,744	-	18,130	18,130	371,874
Professional fees and contract services payments	625,559	1,599,166	7,811	262	244	1,607,483	2,233,042	639,707	227,754	867,461	3,100,503
Food, clothing and other	-	304,696	-	-	-	304,696	304,696	-	-	-	304,696
Insurance - other	20,153	55,533	4,898	5,463	547	66,441	86,594	-	9,472	9,472	96,066
Equipment rental/maintenance	146,468	645,974	3,481	4,668	1,042	655,165	801,633	443	-	443	802,076
Interfund allocation	89,726	2,740,836	119,284	90,723	17,357	2,968,200	3,057,926	(76,820)	24,010	(52,810)	3,005,116
Rent-office	116,201	831,248	-	1,661	-	832,909	949,110	-	-	-	949,110
Supplies	190,213	643,443	11,954	16,163	16,833	688,393	878,606	-	1,606	1,606	880,212
Travel/seminars	16,175	72,059	287	8,719	67,241	148,306	164,481	-	15,365	15,365	179,846
Utilities	48,126	95,659	33	1,022	-	96,714	144,840	443	-	443	145,283
Miscellaneous	117,179	601,931	16,581	28,760	12,638	659,910	777,089	75,950	9,629	85,579	862,668
Bad Debt Allowance	76,165	-	-	3,466	-	3,466	79,631	149,295	-	149,295	228,926
Depreciation of property and equipment	27,612	394,948	-	3,393	-	398,341	425,953	-	920	920	426,873
TOTAL EXPENSES	\$ 4,090,315	\$ 15,737,955	\$ 564,323	\$ 745,572	\$ 336,494	\$ 17,384,344	\$ 21,474,659	\$ 789,018	\$ 577,789	\$ 1,366,807	\$ 22,841,466

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, 2022

	Health and Human Services	Educational					Total Program Services	Supporting Services			Total
		George I. Sanchez Houston	Early Childhood Development Center	Adelante	Work & Learn Center	Sub-Total Educational		Management and General	Fundraising	Total Support Services	
Salaries	\$ 2,063,053	\$ 6,786,749	\$ 228,134	\$ 431,454	\$ 146,615	\$ 7,592,952	\$ 9,656,005	\$ 1,441,172	\$ 213,330	\$ 1,654,502	\$ 11,310,507
Employee fringe benefits	135,016	867,558	14,258	29,984	8,033	919,833	1,054,849	555,366	16,594	571,960	1,626,809
Payroll taxes	151,968	106,028	16,187	32,066	10,572	164,853	316,821	3,853	15,814	19,667	336,488
Professional fees and contract services payments	537,618	955,164	515	12,538	12,009	980,226	1,517,844	1,019,336	169,719	1,189,055	2,706,899
Food, clothing and other	-	299,034	-	-	-	299,034	299,034	-	-	-	299,034
Insurance - other	11,201	40,530	1,000	1,730	-	43,260	54,461	-	-	-	54,461
Equipment rental/maintenance	91,944	535,143	15,595	20,512	5,583	576,833	668,777	16,575	-	16,575	685,352
Interfund allocation	141,244	2,589,435	174,551	96,725	16,130	2,876,841	3,018,085	(2,825,738)	17,163	(2,808,575)	209,510
Rent-office	106,050	312,381	92	2,456	-	314,929	420,979	-	-	-	420,979
Supplies	198,180	374,905	4,282	29,369	11,719	420,275	618,455	1,057	24	1,081	619,536
Travel/seminars	24,966	71,335	-	3,183	34,772	109,290	134,256	41	8,410	8,451	142,707
Utilities	52,966	105,341	16	142	-	105,499	158,465	-	-	-	158,465
Miscellaneous	69,645	245,449	3,379	26,676	5,990	281,494	351,139	156,520	6,981	163,501	514,640
Interest/bank charges	5,549	53,236	8,057	4,453	743	66,489	72,038	48,679	-	48,679	120,717
Bad Debt Allowance	26	-	-	-	-	-	26	-	-	-	26
Depreciation of property and equipment	22,975	297,801	-	12,719	-	310,520	333,495	535,921	1,104	537,025	870,520
TOTAL EXPENSES	\$ 3,612,401	\$ 13,640,089	\$ 466,066	\$ 704,007	\$ 252,166	\$ 15,062,328	\$ 18,674,729	\$ 952,782	\$ 449,139	\$ 1,401,921	\$ 20,076,650

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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (425,149)	\$ 340,844
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt allowance	228,926	26
Depreciation	953,384	870,520
Change in the fair value of SWAP assets	(552,126)	(230,257)
Change in operating assets and liabilities:		
Grants receivable	490,303	(1,773,439)
Other receivable	434,591	378,662
Right of use asset - operating	(581,204)	-
Prepaid expenses	(15,346)	(55,552)
Other assets	(14,450)	-
Accounts payable	(5,266)	(520,860)
Accrued liabilities	(40,965)	(69,271)
Unearned revenue	135,813	(121,091)
Right of use liability - operating	581,204	-
Total adjustments	<u>1,614,864</u>	<u>(1,521,262)</u>
Net cash provided by/(used in) operating activities	<u>1,189,715</u>	<u>(1,180,418)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(4,830,647)</u>	<u>(548,009)</u>
Net cash used in investing activities	<u>(4,830,647)</u>	<u>(548,009)</u>
CASH FLOWS USED BY FINANCING ACTIVITIES:		
Proceeds from borrowings	3,000,000	4,172,852
Repayment of borrowings	<u>(181,651)</u>	<u>(4,316,952)</u>
Net cash provided by/(used in) financing activities	<u>2,818,349</u>	<u>(144,100)</u>
Net decrease in cash and cash equivalents	(822,583)	(1,872,527)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,362,277</u>	<u>5,234,804</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,539,694</u>	<u>\$ 3,362,277</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during the year	<u>\$ 12,876</u>	<u>\$ 75,087</u>

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, 2023 AND 2022

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.

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.

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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

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 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 recognized once the barriers to entitlement are overcome.

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 as of August 31, 2023 and 2022 was \$2,539,694 and \$3,362,277, respectively.

As of August 31, 2023 and 2022, respectively, AAMA did not have any restricted cash and cash equivalents.

Derivative Financial Instruments

AAMA makes limited use of derivative financial instruments 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.

An allowance for contributions receivable is provided when it is believed that balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and analysis of individual balances for each

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NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2023 AND 2022

period. It is possible that management's estimate regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables. For the years ended August 31, 2023 and 2022, AAMA recorded allowance for delinquent grants receivable of \$228,926 and \$26, respectively.

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. In addition, full-time non-school employees are eligible to receive up to 12 days of sick / personal leave time per year in accordance with AAMA's policy. Carryovers of unused sick / personal leave time are not permitted. 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

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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.

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 92% and 92% of AAMA's total revenues for the years ended August 31, 2023 and 2022, 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.

In-kind Contributions / Donated Materials and Services

Contributed materials, services and use of facilities are recognized as contributions at fair value when an unconditional commitment is received from the donor. The related expense is

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recognized as contributed materials, services and facilities are used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration, and fundraising for which no amount has been recognized in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

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, 2023 and 2022, 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.

Functional Allocation of Expenses

Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on square footage. Data lines, postage, supplies and non-assignable and non-depreciable equipment depreciation are allocated based on square footage.

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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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 2,539,694	\$ 3,362,277
Grants receivable and reimbursable grant expenses	<u>2,192,864</u>	<u>2,912,093</u>
Total	<u>\$ 4,732,558</u>	<u>\$ 6,274,370</u>

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 with a mortgage refinanced in 2021. AAMA also currently has a \$750,000 line-of-credit available from one of its banks that can be used if any unexpected liquidity events were to occur.

Reclassification

Certain expenses for the year ended August 31, 2022 were reclassified to a different category or program under the statement of functional expenses to be consistent with the financial reporting for the year ended August 31, 2023 based on AAMA's management decision for better clarification.

Restatement of Previously Reported Net Assets

In fiscal year 2023, the Association concluded that in the prior year it had made errors in recording certain transactions related to accounts payable, the impact of which on the prior years net loss was \$100,066. As a result, net assets decreased by \$100,066.

New Accounting Pronouncement In Consideration

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – Leases (Topic 842) which requires lessees to recognize right-of-use (ROU) assets and lease liabilities for all leases, including operating leases, with a term greater than 12 months. Accordingly, ROU assets are recognized at the present value of the lease payments at inception of the lease. Operating lease expense is recognized on a straight-line basis as rent expense in the statement of activities.

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AAMA adopted the standard effective September 1, 2022, and recognized and measured leases existing at, or entered into after September 1, 2022 (the beginning of the period of adoption) using a modified retrospective approach, with certain practical expedients available.

2. PROGRAM SERVICES

AAMA is structured into distinct divisions, each with its own unique focus as reported in the accompanying statements of functional expenses, as follows:

Health and Human Services Programs

Outpatient Adult and Adolescent Treatment – Programs provide adult and teen outpatient treatment for substance use disorders in Houston, Texas and the surrounding areas. Treatment includes HIV/STD/Hep C and M Pox education, testing and intervention. In Laredo, Texas AAMA provides medication assisted treatment and outpatient treatment for adults.

Prevention/Intervention – 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. Programs include family and teen counseling as well as opportunities for GED and vocational training.

Education Programs

George I. Sanchez Charter School – Houston – The charter school provides educational choices and opportunities for families and children, focusing on a child's earliest years to build a strong foundation for a lifelong love of learning. By situating AAMA's quality schools within community centers, families have access to a full range of family-centered programs to ensure academic success for their children.

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 6th through the 12th grades on two campuses in Houston, Texas.

Early Childhood Development Center – AAMA's Early Childhood Development Center (ECDC) offers developmentally appropriate classes for infants through 4 years. ECDC is licensed by the Texas Department of Health and Human Services and accredited by the National Association for the Education of Young Children (NAEYC). This community-based approach allows students to transition into GIS, providing an enriched program for the students' education. The program's hands-on experiential approach engages and supports parents in learning about their children's developmental stages.

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Adelante – This program provides adult basic education including GED, ESL, Civics, Family Literacy, and workforce development programs.

Work and Learn Center – The Work and Learn Center offers a pathway for opportunity youth who are young people ages 16-24 disconnected from employment and educational pathways. The Work and Learn Center helps students define and pursue their goals for their education, employment, finances, and personal lives. Through engaging workshops, peer-to-peer learning, and hands-on projects, our 8-week Career Readiness & Design and Digital Literacy program provide students with paid training in career readiness, digital literacy, and graphic design. Upon completion of the program, students receive a free new laptop. The program also offers personalized career counseling and opportunities to connect with employers to help students implement this training outside of the classroom and take steps to achieve their individual goals.

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 its banks as of August 31, 2023 and 2022, which was subject to custodial credit risk, was \$6,388,523 and \$3,670,608, respectively. As of August 31, 2022 and 2021, AAMA's deposits at one of its banks included the sum of \$2,128,548 and \$2,469,000, respectively, in funds collateralized by U.S. Treasury Bills which provided additional coverage leaving the un-insured balance of \$2,098,009 and \$2,107,964 as of August 31, 2023 and 2022, 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:

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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, 2023 and 2022, respectively, 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 as of August 31, 2023 and 2022 were as follows:

	2023		
	GIS	Non-GIS	Total
Land (non-depreciable)	\$ -	\$ 933,749	\$ 933,749
Buildings and improvements	2,156,053	17,840,215	19,996,268
Furniture and equipment	2,674,646	1,959,521	4,634,167
	4,830,699	20,733,485	25,564,184
Less: accumulated depreciation			
depreciable assets	2,960,801	11,962,280	14,923,081
Property and equipment, net	<u>\$ 1,869,898</u>	<u>\$ 8,771,205</u>	<u>\$ 10,641,103</u>

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	2022		
	GIS	Non-GIS	Total
Land (non-depreciable)	\$ -	\$ 175,800	\$ 175,800
Buildings and improvements	1,441,658	14,808,419	16,250,077
Furniture and equipment	2,367,029	1,940,631	4,307,660
	<u>3,808,687</u>	<u>16,924,850</u>	<u>20,733,537</u>
Less: accumulated depreciation			
depreciable assets	<u>2,565,853</u>	<u>11,403,844</u>	<u>13,969,697</u>
Property and equipment, net	<u>\$ 1,242,834</u>	<u>\$ 5,521,006</u>	<u>\$ 6,763,840</u>

Depreciation expense for the years ended August 31, 2023 and 2022 was \$426,873 and \$870,520, 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 Assets for the charter school in the report issued January 26, 2024.

6. ACCRUED SALARIES

During August 31, 2023 and 2022, AAMA accrued \$692,747 to be paid after September 1, 2023 and \$735,413 after September 1, 2022 and these amounts are recorded in accrued liabilities.

7. LEASES

AAMA implements the new lease accounting standard ASC 842, issued by the Financial Accounting Standards Board (FASB), to enhance financial statement transparency and comparability. This standard requires the recognition of operating leases as right-of-use assets and corresponding lease liabilities on the balance sheet.

For calculating the initial lease liabilities of all leases under ASC 842, AAMA will consistently employ the Risk-Free Discount Rate as its incremental borrowing rate. This rate will be determined by the Treasury bill interest rate prevailing on the starting date of each lease. For leases already in existence at the time of ASC 842 implementation, the Risk-Free Discount Rate will be based on the Treasury bill rate on the implementation date.

AAMA adopts a 12-month threshold for recognizing lease assets and liabilities on its balance sheet. Leases with a term of 12 months or less will be excluded from initial recognition.

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In keeping with ASC 842, new lease standards, this entity will account for all leases by recording an initial lease liability and a right of use (ROU) asset at the beginning of any new lease term. Thereafter, monthly entries will be used to decrease both the ROU asset and the lease liability and expense the appropriate portion of the lease.

Aggregate future minimum lease payments:

The aggregate future minimum lease payments below summarize the remaining future undiscounted cash flows for operating leases, and a reconciliation to lease liabilities reported on the statement of financial position as of August 31, 2023:

Maturity analysis	Operating
Less than one year	\$ 262,411
One to five years	318,793
More than five years	-
Total lease liability at August 31, 2023	<u>\$ 581,204</u>

Other information:

Other information as of August 31, 2023:

	Operating
Weighted-average remaining lease term	2.6 years
Annual weighted-average discount rate	5.11%
Right-of-use asset, net	\$ 581,204
Lease liability, current	\$ 262,411
Lease liability, net of current portion	\$ 318,793
Operating cash flows paid for operating leases	\$ -

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8. BONDS AND NOTES PAYABLE

Bonds and notes payable to a bank at August 31, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Note/Bond 2021 payable, principal and interest payments due monthly with a variable interest rate based on LIBOR on the first day of each month plus a spread of 1.6%. Outstanding principal and interest due in September 2031.	\$ 3,860,003	\$ 4,021,602
Note/Bond 2023 payable commercial loan, principal and interest payments due monthly with the initial interest rate of 3.99% for the first six months from date of the Note ("Initial Rate Period"); After the termination of the Initial Rate Period, the interest rate is equal to 5.16%. Outstanding principal and interest due in July 2033.	<u>2,979,948</u>	<u>-</u>
Total debt	6,839,951	4,021,602
Less current portion	<u>544,039</u>	<u>161,600</u>
	<u>\$ 6,295,912</u>	<u>\$ 3,860,002</u>

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, 2023 were as follows:

<u>Year Ended August 31,</u>	<u>Amount</u>
2024	\$ 544,039
2025	555,303
2026	560,103
2027	564,903
2028	569,703
Thereafter	<u>4,045,899</u>
	<u>\$ 6,839,950</u>

In July 2023, AAMA entered into a commercial loan agreement with JPMorgan Chase Bank, N.A., in the principal amount of \$3,000,000 to be used to purchase a new facility. The new note is due in monthly installments of principal and a variable interest rate. The note has a 10-year maturity date which is due in July 2033.

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For the years ended August 31, 2023 and 2022, AAMA recorded interest expense of \$12,876 and \$75,087 respectively. No interest expense was capitalized for the years ended August 31, 2023 and 2022.

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.

With respect to the Note/Bond 2021 payable, the loan agreement signed on September 14, 2021, AAMA signed a general swap master contract dated September 14, 2021, 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 3.05% per annum for the period beginning September 14, 2021 through September 14, 2031.

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, 2023 and 2022, the notional principal amounts under these interest rate swap contracts, amounted to \$3,853,652 and \$4,028,752, respectively. The estimated fair value of the interest rate swap contracts was \$782,383 and \$230,257, and is included in the accompanying statements of financial position as of August 31, 2023 and 2022, respectively. Of these totals, \$102,498 and \$40,542 represent amounts that are currently due from as of August 31, 2023 and due to as of August 31, 2022, respectively.

The change in fair value on these interest rate swap agreements was a gain of \$552,126 and \$230,257 for the year ended August 31, 2023 and 2022, respectively, and is included in the statements of activities.

For the valuation of the interest rate swap at August 31, 2023 and 2022, 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.

The following table represents the interest rate swap liability, measured at fair value, on a recurring basis at August 31, 2023 and 2022:

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate SWAP asset at August 31, 2023	\$ -	\$782,383	\$ -	\$782,383
Interest rate SWAP asset at August 31, 2022	\$ -	\$ 230,257	\$ -	\$ 230,257

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions amounting to \$281,324 and \$488,917, respectively, as of August 31, 2023 and 2022, and summarized below, represent contributions to AAMA, which the donors have restricted for use in future periods:

	<u>Year Ended August 31,</u>	
	<u>2023</u>	<u>2022</u>
Restricted for food services	\$ 270,687	\$ 486,459
Restricted for special education	69,389	998
Restricted for scholarships	1,461	1,460
Total restricted net assets	<u>\$ 341,537</u>	<u>\$ 488,917</u>

During the years ended August 31, 2023 and 2022, net assets of \$20,835,241 and \$15,413,692, 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 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,

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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 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 the plan as of August 31, 2023 and 2022:

<u>Name of Pension Fund</u>	<u>EIN and Plan Number</u>	<u>Total Plan Assets (in thousands)</u>		<u>Accumulated Benefit Obligations (in thousands)</u>		<u>% funded</u>	
		<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
TRS	N/A	\$213,472,526	\$207,621,898	\$255,860,887	\$243,553,045	73.15%	75.62%

The following presents information about AAMA's involvement in the Plan:

<u>AAMA's Contributions for Year Ended August 31,</u>					
<u>Collective Bargaining Agreement</u>	<u>2023</u>	<u>2022</u>	<u>More than 5% of Total Contributions</u>	<u>FIP/RP Status</u>	<u>Surcharge Imposed</u>
N/A	\$1,133,154	\$1,100,441	No	N/A	No

Funding Policy

Under provisions in the State of Texas law, TRS members are required to contribute 8.00% 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 7.75% 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:

	<u>Year Ended August 31</u>	
	<u>2023</u>	<u>2022</u>
TRS Retirement	\$ 575,594	\$ 591,010
TRS Care	46,767	48,019
	<u>\$ 622,361</u>	<u>\$ 639,029</u>

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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 1.7% 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	
	2023	2022
TRS Entity Fee	\$ 53,962	\$ 55,407
TRS Entity Payment for Non-OASDI Members	129,509	125,590
	<u>\$ 183,471</u>	<u>\$ 180,997</u>

For payroll covered by federal government funded grants, AAMA is required to contribute to the defined benefit plan matching contribution amount of 7.75% 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:

	Year Ended August 31	
	2023	2022
TRS Retirement	\$ 168,672	\$ 145,099
TRS Care	24,224	19,352
	<u>\$ 192,896</u>	<u>\$ 164,451</u>

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, 2023 and 2022 amounted to \$181,037 and \$176,831, respectively.

13. HEALTH CARE COVERAGE

During the years ended August 31, 2023 and 2022, employees of AAMA were covered by a health insurance plan (the Plan). During the fiscal year 2023, AAMA's contribution ranged from \$548 to \$1,315 per month per employee to the Plan based on coverage. During the fiscal year 2022, AAMA's contribution ranged from \$491 to \$1,048 per month per employee to the Plan based on coverage.

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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, 2023 and 2022, AAMA had insurance policy coverage as follows:

	Year Ended August 31,	
	2023	2022
Buildings	\$ 18,934,958	\$ 18,046,238
Personal property	2,543,800	2,055,200
Business income/interruption	3,690,000	3,740,000
Commercial automobile	11,000,000	11,000,000
General Liability	11,000,000	11,000,000
Professional Liability	11,000,000	11,000,000
Sexual abuse (Aggregate)	2,000,000	2,000,000
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	11,000,000	11,000,000
Fiduciary liability	1,000,000	1,000,000

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 \$36,000 and \$23,424 for fiscal years ended August 31, 2023 and 2022, respectively.

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 Texas Education Agency (TEA) and is subject to audit and adjustment. In addition, expenses charged to federal and state programs are subject to audit and adjustment by the grantor agencies. Such

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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 2023 and 2022 financial statements of AAMA.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 26, 2024, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

SINGLE AUDIT SECTION

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2023

Federal Grantor/Pass-through Grantor/Program Title	Federal Assistance Listing Number	Pass-through or Grantor's Number	Total Federal Expenditures
U.S Department of Health and Human Services			
Passed-Through Texas Education Agency:			
UT Health San Antonio	93.788	HHS000878900001	\$ 1,555,848
HIV – Core and Client Level	93.940	HHS000077800006	344,425
SAMHSA – CSAP Substance Abuse & Mental Health Services Administration	93.243	19SP81536A	341,572
SAMHSA – CSAT Substance Abuse & Mental Health Services Administration	93.243	19TI82482A	563,374
SAMHSA – Paso Libre Substance Abuse & Mental Health Services Administration	93.243	21TI84220A	404,545
Total SAMHSA			<u>1,309,491</u>
Total - U.S. Department of Health and Human Services			<u>3,209,764</u>
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	22610101101804	478,425
* Part A, Improving Basic Programs	84.010A	21610101101804	33,552
* 1003 School Improvement	84.010A	22610141101804	34,020
* 1003 School Improvement	84.010A	21610141101804	9,165
Total ESEA, Title I			<u>555,162</u>
ESEA, Title II, Preparing, Training, and Recruiting High Quality Teachers and Principals:			
* Part A – Teacher and Principal Training and Recruiting	84.367A	22694501101804	37,668
* Part A – Teacher and Principal Training and Recruiting	84.367A	21694501101804	11,811
Total ESEA Title II			<u>\$ 49,479</u>

Continue

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONT'D
YEAR ENDED AUGUST 31, 2023

ESEA, Title III, Language Instruction for Limited English Proficient and Immigrant Students:			
* Part A – English Language Acquisition, Language Enhancement, and Academic Achievement	84.365A	22671001101804	\$ 50,782
* Part A – English Language Acquisition, Language Enhancement, and Academic Achievement – Houston	84.365A	21671001101804	1,257
Total ESEA, Title III			<u>52,039</u>
* IDEA, Part B, Special Education – Grants to States	84.027A	226600011018026600	81,440
* Grants for State Assessments and Related Activities – LEP Summer School	84.369A	69552002	2,949
* COVID 19 - CRRSA ESSER II	84.425D	21521001101804	649,828
* COVID 19 - APR ESSER III	84.425U	21528001101804	832,889
* COVID 19 - TCLAS ESSER III	84.425U	21528042101804	143,321
Total ESSER			<u>1,626,038</u>
* ESEA, Title IV, Part A – Subpart 1, Student Support and Academic Enrichment Program	84.424A	22680101101804	9,216
Total Passed-Through Texas Education Agency			<u>2,376,323</u>
Passed-through HGAC Workforce Solutions			
* Adult Education and Family Literacy Act	84.002A	224-72	689,654
Total Passed-through HGAC Workforce Solutions			<u>689,654</u>
Total - U.S. Department of Education			<u>3,065,977</u>
U.S. Department of Agriculture			
Passed-through Texas Education Agency:			
* National School Lunch Program – Cash	10.555	71302201	396,522
* National School Lunch Program – Cash	10.555	71302101	69,757
* School Breakfast Program	10.553	71402201	167,187
* School Breakfast Program	10.553	71402101	37,629
Total Passed-through - Texas Education Agency			<u>671,095</u>
* National School Lunch Program (NSLP)	10.555	6TX300400	14,064
* Noncash Assistance (Commodities)	10.555	00474	32,460
Total - U.S. Department of Agriculture			<u>717,619</u>
Federal Communications Commission			
Emergency Connectivity Fund	32.009	ECF202107449	97,500
Total Expenditure of Federal Awards			\$ <u>7,090,860</u>
* Federal funds for GIS			

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2023

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, 2023. 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, 2023

5. RECONCILIATION TO TEA REPORTING

Reconciliation of TEA - Federal:

TEA Payment Report 2023		\$	2,726,803
Pass-Through TEA (per the Schedule)			
U.S. Department of Education	2,376,323		
U.S. Department of Agriculture	<u>671,095</u>		<u>3,047,418</u>
Difference			<u>(320,615)</u>
Accounts receivable 2022	(248,962)		
Accounts receivable 2023	523,626		
TEA pass-through through other distributors	<u>45,951</u>		<u>320,615</u>
Difference		\$	<u>-</u>

Reconciliation of TEA - State

TEA Payment Report 2023		\$	<u>9,192,842</u>
			<u>9,192,842</u>
FSP accounts receivable 2022	54,182		
FSP accounts receivable 2023	(12,957)		
FSP estimated accrued for 2023	(900,288)		
Foundation School Program - Houston	<u>10,051,905</u>		<u>9,192,842</u>
Difference		\$	<u>-</u>



**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
INDEPENDENT AUDITOR'S REPORT**

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

We have audited, 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, the financial statements of the Association for the Advancement of Mexican-Americans (“AAMA”), which comprise the statements of financial position as of August 31, 2023 and 2022, 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 26, 2024.

Report on 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 over financial reporting

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency



described in the accompanying Schedule of Findings and Questioned Costs, as item 2023-001, to be a material weakness.

Report on 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 financial statements. 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*.

AAMA's Response to Findings

AAMA's response to the finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. AAMA's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

McConnell & Jones LLP

Houston, Texas
January 26, 2024



**REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE
INDEPENDENT AUDITOR'S REPORT**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited compliance of the Association for the Advancement of Mexican-Americans (“AAMA”) with the types of compliance requirements identified as subject to audit 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 programs for the year ended August 31, 2023. AAMA’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

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 each of its major federal programs for the year ended August 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor’s Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of AAMA and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of AAMA’s compliance with the compliance requirements referred to above.



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to AAMA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on AAMA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about AAMA's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding AAMA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of AAMA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 AAMA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



Report on 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 a 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 *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McConnell & Jones LLP

Houston, Texas
January 26, 2024

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2023

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? | Yes |
| 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 are 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

84.10A	ESEA Title I
84.425D	CRRSA ESSER II
84.425U	APR ESSER III
84.425U	TCLAS ESSER III

- | | |
|---|-----------|
| 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, 2023

PART II: FINDINGS – FINANCIAL STATEMENT AUDIT

Reference
Number

Finding

2023-001

Finding Type: Material Weakness

Criteria: George I. Sanchez Charter School - Houston (the “School”) internal control structure should ensure that financial information is complete, accurate, and made available in a timely and orderly manner.

Condition: The School’s books and records for 2023 fiscal year were not reconciled and closed in a timely manner. As a result, numerous adjusting entries were made by the client after the start of the audit process. In addition, numerous audits adjusting entries were identified and proposed by the auditors throughout the duration of the audit. As a result of these numerous misstatements, the financial records of the Academy were materially misstated both during the year and at the beginning of the audit process.

Cause: A thorough review of the year-end balances was not performed to ensure that account balances were calculated and recorded in accordance with generally accepted accounting principles.

Effect: The financial records of the School were materially misstated both during the year and at the beginning of the audit process.

Recommendation: We recommend that the School develop monthly and annual closing procedures to ensure that account reconciliations are completed accurately and timely.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2023

Management's Response: During the audit, the School's newly appointed executive leader came to recognize the need for support and approved the hire of an outside audit consultant to manage the audit process with finance office staff. Further, management recognized the need for increased support in-house and contracted with an experienced charter and non-profit finance and accounting firm as the charter and sponsoring entity's Chief Financial Officer (CFO). The CFO position was previously vacated in FY23. The new CFO consultant firm has already begun working to address the issues brought forth by the auditor and audit consultant. A forensic assessment of policies, accounting practices, and financial management has been underway since January 1, 2024. This has been shared with the auditor and promises to bring critical financial and accounting changes to the School and their sponsoring entity. This will give a clear financial picture of the charter school's activities and the additional supporting programs under their sponsoring entity, The Association for the Advancement of Mexican Americans (AAMA). This finding will be cured during FY24.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2023

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

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

No findings were noted.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS
YEAR ENDED AUGUST 31, 2023

None reported.

**GEORGE I. SANCHEZ CHARTER
SCHOOL - HOUSTON**

**AN UNINCORPORATED DIVISION OF
ASSOCIATION FOR THE ADVANCEMENT
OF MEXICAN-AMERICANS
(A Texas Nonprofit Organization)**

**Annual Financial Statements and Independent
Auditor's Report**

Years Ended August 31, 2023 and 2022

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GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

(A Texas Nonprofit Organization)

Years Ended August 31, 2023 and 2022

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Association for the Advancement of Mexican-Americans (AAMA)

Charter Holder

George I. Sanchez

Charter School

CERTIFICATE OF BOARD

George I. Sanchez
Harris County
County-District Number: 101-804

We, the undersigned, certify that the attached Financial Statements and
Compliance Report for the year ended August 31, 2023, of George I.
Sanchez was reviewed and ✓ approved ____ disapproved at a meeting of
the Board of Directors of AAMA on the 19th day of January 2024.

Officers

Telisa Shead
Amegy Bank
Board Chair

Alexandria H. Hernandez
Pappas Restaurants
Vice Chair

Directors

Adeeb Barqawi
ProUnitas

Dr. David F. Curtis
Tilman J. Fertitta Family
College of Medicine U of H

Christian Diaz
Trafigura Trading LLC

Charles D. Ezell
Goya Foods

Ricardo M. Mago
Community Health Choice

Misha McClure
Comcast

Veronica Neal
Keystone Advisors

Dr. Martin Perez
Houston Community College

Crystal E. Ramon-Miranda
Chevron

Director Emeritus

Maria (Cris) Garza †
Raul Dominguez †

CEO, President, and Superintendent

Adolfo Melara, PhD

Signature of Board Chair

Signature of Board Secretary



AAMA is a 501(c)(3) nonprofit organization, Tax ID: 74-1696961.

Please retain this letter as a receipt for your donation.

6001 Gulf Freeway, Bldg E | Houston, Texas 77023 | T: (713) 967-6700 | F: (713) 926-8035 | www.aama.org

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
George I. Sanchez Charter School - Houston

Opinion

We have audited the financial statements of George I. Sanchez Charter School - Houston (the "School"), a Texas nonprofit corporation, which comprise the statements of financial position as of August 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the School as of August 31, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance



but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.
-

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules, as listed in the table of contents, as required by the Texas Education Agency, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 US GAAS. In our opinion, such 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 26, 2024 on our consideration of the School'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 solely 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 the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's internal control over financial reporting and compliance.

McConnell & Jones LLP

Houston, Texas
January 26, 2024

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GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

(A Texas Nonprofit Organization)

Statements of Financial Position**August 31, 2023 and 2022**

ASSETS:	2023	2022
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,225,529	\$ 2,262,352
Grants receivable and reimbursable grant expenses	1,625,794	1,644,687
Other accounts receivable	-	12,502
Prepaid expenses	127,869	158,614
Right-of-use asset	581,204	-
Other assets	28,844	14,394
Total current assets	3,589,240	4,092,549
NONCURRENT ASSETS:		
Buildings and improvements	2,156,053	1,441,658
Furniture and equipment	2,674,646	2,367,029
Less: accumulated depreciation	(2,960,801)	(2,565,853)
Property and equipment, net	1,869,898	1,242,834
Total noncurrent assets	1,869,898	1,242,834
TOTAL ASSETS	\$ 5,459,138	\$ 5,335,383
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable	\$ -	\$ -
Accrued liabilities	377,100	355,128
Unearned revenues	21,872	20,667
Lease liabilities, current	262,410	-
Due to AAMA	2,438,490	2,380,130
Total current liabilities	3,099,872	2,755,925
LONG-TERM LIABILITIES:		
Lease liabilities, net of current portion	318,794	-
Total long-term liabilities	318,794	-
TOTAL LIABILITIES	3,418,666	2,755,925
NET ASSETS:		
Without donor restrictions	1,658,588	2,092,001
With donor restrictions	381,884	487,457
TOTAL NET ASSETS	2,040,472	2,579,458
TOTAL LIABILITIES AND NET ASSETS	\$ 5,459,138	\$ 5,335,383

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

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Statements of Activities
For the Year Ended August 31, 2023
(With comparative totals for 2022)

		Without Donor Restrictions	With Donor Restrictions	Totals	
				2023	2022
REVENUES:					
Local support:					
5740	Other revenues from local sources	\$ 33,628	\$ -	\$ 33,628	\$ 35,635
5750	Revenue from cocurricular, enterprising services or activities	85,655	-	85,655	193,762
5769	Revenue from the city, county or other non-school district local government or administrative unit	118,563	-	118,563	167,956
	Total local support	237,846	-	237,846	397,353
State program revenues:					
5810	Foundation school program act revenues	-	9,768,737	9,768,737	10,004,889
5820	State program revenues distributed by the Texas Education Agency	-	269,474	269,474	47,016
	Total state program revenues	-	10,038,211	10,038,211	10,051,905
Federal program revenues:					
5920	Federal revenues distributed by the Texas Education Agency	-	4,877,763	4,877,763	3,177,379
5930	Federal revenues distributed by Other State of Texas government agencies	-	45,149	45,149	14,064
5940	Federal revenues distributed directly by Federal Government	-	-	-	-
	Total federal program revenues	-	4,922,912	4,922,912	3,191,443
Net assets released from restrictions:					
	Restrictions satisfied by payments	15,066,696	(15,066,696)	-	-
	TOTAL REVENUES	15,304,542	(105,573)	15,198,969	13,640,701
EXPENSES:					
Program Services:					
	Instructions and Instructional Services	7,223,110	-	7,223,110	6,207,586
	Instructional and School Leadership	882,818	-	882,818	817,135
Support Services:					
	General Administration	799,711	-	799,711	2,094,848
	Support Services - Student (Pupil)	1,693,798	-	1,693,798	1,540,717
	Support Services - Non-Student Based	4,290,509	-	4,290,509	2,965,204
	Fundraising	442,328	-	442,328	-
	Community Services	405,681	-	405,681	14,599
	TOTAL EXPENSES	15,737,955	-	15,737,955	13,640,089
	CHANGE IN NET ASSETS	(433,413)	(105,573)	(538,986)	612
	NET ASSETS, BEGINNING OF YEAR	2,092,001	487,457	2,579,458	2,578,846
	NET ASSETS, END OF YEAR	\$ 1,658,588	\$ 381,884	\$ 2,040,472	\$ 2,579,458

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

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Statement of Functional Expenses
For the Year Ended August 31, 2023

		Program Services			Supporting Services						
		Instruction and Instructional Services	Instructional and School Leadership	Total Program Services	Support Services - Student (Pupil)	Support Services - Non-student based	Community Services	General Administration	Fundraising	Total Support Services	Total Expenditures
EXPENSES:											
6110	Teachers and Other Professional Personnel	\$ 4,019,559	\$ 427,197	\$ 4,446,756	\$ 304,929	\$ 160,724	\$ 111,727	\$ 148,969	\$ 104,724	\$ 831,073	\$ 5,277,829
6120	Support Personnel	383,479	324,023	707,502	473,697	203,460	2,755	5,380	-	685,292	1,392,794
6130	Employee Allowances	1,163	1,839	3,002	600	385	-	2,963	-	3,948	6,950
6140	Employee Benefits	734,492	112,773	847,265	132,216	18,294	200	76,914	-	227,624	1,074,889
	Total Payroll Expenses	5,138,693	865,832	6,004,525	911,442	382,863	114,682	234,226	104,724	1,747,937	7,752,462
6210	Professional Services	283,798	-	283,798	-	229,989	283,798	111,269	337,604	962,660	1,246,458
6216	Indirect Allocation	-	-	-	-	-	-	227,424	-	227,424	227,424
6230	Education Service Center	15,910	1,125	17,035	-	-	-	19,922	-	19,922	36,957
6240	Contracted Maintenance and Repair	-	-	-	36,708	472,975	-	-	-	509,683	509,683
6250	Utilities	287	-	287	-	95,372	-	-	-	95,372	95,659
6255	Rentals—Facility Allocation	-	-	-	-	1,287,633	-	-	-	1,287,633	1,287,633
6260	Rentals—Operating Leases	-	-	-	571	882,129	-	-	-	882,700	882,700
6290	Miscellaneous Contracted Services	793,254	1,500	794,754	312,572	323,131	600	60,843	-	697,146	1,491,900
6310	Maintenance Supplies	-	-	-	58,522	125,974	-	-	-	184,496	184,496
6320	Instructional Materials	2,025	-	2,025	-	-	-	-	-	-	2,025
6330	Testing Materials	-	-	-	-	-	-	-	-	-	-
6340	Food Service	-	-	-	304,696	-	-	-	-	304,696	304,696
6390	Supplies and Materials—General	538,531	8,579	547,110	8,246	48,509	5,677	31,876	-	94,308	641,418
6410	Travel, Subsistence, and Stipends	15,539	1,358	16,897	-	955	-	6,002	-	6,957	23,854
6420	Insurance and Bonding Costs	-	-	-	31,372	24,161	-	-	-	55,533	55,533
6440	Depreciation Expense	46,406	-	46,406	-	348,542	-	-	-	348,542	394,948
6490	Miscellaneous Operating Costs	218,649	4,424	223,073	29,669	68,276	924	108,149	-	207,018	430,091
6590	Debt Service	-	-	-	-	-	-	-	-	-	-
6594	Bad Debt Allowance	170,018	-	170,018	-	-	-	-	-	-	170,018
	Total Non-payroll Expenses	2,084,417	16,986	2,101,403	782,356	3,907,646	290,999	565,485	337,604	5,884,090	7,985,493
TOTAL EXPENSES		\$ 7,223,110	\$ 882,818	\$ 8,105,928	\$ 1,693,798	\$ 4,290,509	\$ 405,681	\$ 799,711	\$ 442,328	\$ 7,632,027	\$ 15,737,955

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

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Statement of Functional Expenses
For the Year Ended August 31, 2022

		Program Services			Supporting Services					
		Instruction and Instructional Services	Instructional and School Leadership	Total Program Services	Support Services - Student (Pupil)	Support Services - Non-student based	Community Services	General Administration	Total Support Services	Total Expenditures
EXPENSES:										
6110	Teachers and Other Professional Personnel	\$ 4,139,956	\$ 367,718	\$ 4,507,674	\$ 350,074	\$ 9,072	\$ -	\$ 551,671	\$ 910,817	\$ 5,418,491
6120	Support Personnel	360,207	334,074	694,281	501,192	162,193	2,680	-	666,065	1,360,346
6130	Employee Allowances	956	2,933	3,889	1,150	35	-	2,838	4,023	7,912
6140	Employee Benefits	663,402	93,819	757,221	141,692	9,062	179	65,432	216,365	973,586
Total Payroll Expenses		5,164,521	798,544	5,963,065	994,108	180,362	2,859	619,941	1,797,270	7,760,335
6210	Professional Services	899	-	899	-	-	-	152,054	152,054	152,953
6216	Indirect Allocation	-	-	-	-	-	-	1,203,676	1,203,676	1,203,676
6230	Education Service Center	12,720	204	12,924	-	-	-	31,418	31,418	44,342
6240	Contracted Maintenance and Repair	-	-	-	30,824	409,439	-	-	440,263	440,263
6250	Utilities	-	-	-	760	104,581	-	-	105,341	105,341
6255	Rentals—Facility Allocation	-	-	-	-	1,168,822	-	-	1,168,822	1,168,822
6260	Rentals—Operating Leases	-	-	-	-	372,797	-	-	372,797	372,797
6290	Miscellaneous Contracted Services	533,887	-	533,887	86,624	305,529	-	250	392,403	926,290
6310	Maintenance Supplies	-	-	-	52,524	86,880	-	-	139,404	139,404
6320	Instructional Materials	8,082	-	8,082	-	-	-	-	-	8,082
6330	Testing Materials	217	-	217	-	-	-	-	-	217
6340	Food Service	-	-	-	299,034	-	-	-	299,034	299,034
6390	Supplies and Materials—General	240,552	4,657	245,209	18,600	69,781	8,033	25,306	121,720	366,929
6410	Travel, Subsistence, and Stipends	5,608	1,095	6,703	11,031	207	-	8,870	20,108	26,811
6420	Insurance and Bonding Costs	-	-	-	27,839	12,691	-	-	40,530	40,530
6440	Depreciation Expense	50,556	-	50,556	-	247,245	-	-	247,245	297,801
6490	Miscellaneous Operating Costs	190,544	12,635	203,179	19,373	6,870	3,707	53,333	83,283	286,462
Total Non-payroll Expenses		1,043,065	18,591	1,061,656	546,609	2,784,842	11,740	1,474,907	4,818,098	5,879,754
TOTAL EXPENSES		\$ 6,207,586	\$ 817,135	\$ 7,024,721	\$ 1,540,717	\$ 2,965,204	\$ 14,599	\$ 2,094,848	\$ 6,615,368	\$ 13,640,089

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

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

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**Statements of Cash Flows
For the Years Ended August 31, 2023 and 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
State grant receipts	\$ 9,928,760	\$ 11,267,380
Federal grant receipts	5,008,700	2,941,338
Receipts from miscellaneous sources	352,469	359,158
Payments to or on behalf of employees for services rendered	(7,730,490)	(7,927,698)
Payments to vendors for goods and services rendered	(7,574,250)	(6,158,654)
Net cash provided by operating activities	(14,811)	481,524
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Building improvements and purchases of equipment	(1,022,012)	(504,883)
Net cash used in investing activities	(1,022,012)	(504,883)
NET (DECREASE)/INCREASE IN CASH	(1,036,823)	(23,359)
CASH, BEGINNING OF YEAR	2,262,352	2,285,711
CASH, END OF YEAR	<u>\$ 1,225,529</u>	<u>\$ 2,262,352</u>
Reconciliation of change in net assets		
to net cash used in operating activities:		
Change in net assets	\$ (538,986)	\$ 612
Adjustments to reconcile change in net assets to net cash		
(used in)/provided by operating activities:		
Bad debt allowance	-	-
Depreciation	394,948	297,801
Changes in operating assets and liabilities:		
Grants receivable	18,893	(1,143,259)
Other receivable	12,502	175,916
Right of use asset - operating	(581,204)	-
Prepaid expenses	30,745	(65,963)
Other assets	(14,450)	-
Accounts payable	-	(510,415)
Accrued liabilities	21,972	(167,363)
Unearned revenue	1,205	(332,116)
Due to AAMA	58,360	2,226,311
Right of use liability - operating	581,204	-
Total adjustments	524,175	480,912
Net cash (used in) / provided by operating activities	<u>\$ (14,811)</u>	<u>\$ 481,524</u>

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

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GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

(A Texas Nonprofit Organization)

Notes to the Financial Statements For the Years Ended August 31, 2023 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The School is operated by the Association for the Advancement of Mexican-Americans (“AAMA”), a not-for-profit human service organization founded on November 23, 1970. The School and AAMA are governed by a Board of Directors selected pursuant to the bylaws of AAMA. The Board has the primary accountability for the fiscal affairs of the School and AAMA.

The School was organized to provide educational services to disadvantaged populations with extensive and individualized academic, social, and emotional support to help students overcome barriers to ensure they are on a path to success in career and life. Our model positions us to effectively serve students in two Houston campuses. In addition to the School’s educational services, AAMA also provides adult education through its Adelante division in Houston, and health and human services to clients in Houston, San Antonio, and Laredo. AAMA’s mission is accomplished through an array of innovative programs that advance the lives of at-risk youth and families and strengthen surrounding communities.

Federal income tax status – AAMA is incorporated in the State of Texas and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

The financial statements of George I. Sanchez Charter School - Houston (the “School”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) in conjunction with the Texas Education Agency’s Financial Accountability System Resource Guide (“Resource Guide”).

Financial Statement Presentation

The School is required by accounting principles generally accepted in the United States of America to report information regarding its financial position and activities according to two classes of 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 the School. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

(A Texas Nonprofit Organization)

Notes to the Financial Statements For the Years Ended August 31, 2023 and 2022

Net assets with donor restrictions – These are resources that are subject to donor-imposed stipulations that may be met, either by actions of the School and/or the passage of time. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

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

Cash and Cash Equivalents

For financial statement purposes, the School considers all highly liquid investment instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. The carrying value approximates fair value because of the short maturities of those financial instruments. The school did not have any cash equivalents as of August 31, 2023 and 2022.

Grant Receivable and Reimbursable Grant Expenses

Grants receivable and reimbursable grant expenses represent pending reimbursements of program expenses incurred and billed as of August 31, 2023 and 2022 and expected to be received from the funding sources in the subsequent year.

An allowance for contributions receivable is provided when it is believed that balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and analysis of individual balances for each period. It is possible that management's estimate regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables. For the years ended August 31, 2023 and 2022, the School recorded allowance for delinquent grants receivable of \$0 and \$305,941, respectively.

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.

The School'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.

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

(A Texas Nonprofit Organization)

Notes to the Financial Statements For the Years Ended August 31, 2023 and 2022

Right of Use Asset – Operating

A right of use asset – operating is recognized at the present value of the lease payments at inception of the lease. Lease expense is recognized on a straight-line basis as rent expense in the statement of activities.

Compensable Absences

Vacation and personal leave time are granted to AAMA employees. 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.

Unearned Revenue

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

Revenue Recognition

State Foundation School Program revenues are recognized based on the reported student attendance. State and Federal grant revenues are recognized when services are rendered. Contributions and other revenues are recognized when received or unconditionally promised by a third party.

Texas Education Agency Financial Accountability Guide

For all federal and state programs, the 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.

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(A Texas Nonprofit Organization)

Notes to the Financial Statements For the Years Ended August 31, 2023 and 2022

Contributions

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Amounts received that are designated for future periods or restricted by the donors are reported as restricted contributions and as increases in net assets with donor restrictions. Contributions received with donor-imposed conditions and restrictions that are met in the same reporting period are reported as contributions without donor restrictions and as increases in net assets without donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed Services

The School recognizes contributed services at their fair value if the services provide value to the School and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by contributors. As of August 31, 2023 and 2022, the School did not receive any services.

Income Taxes

The School is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, income taxes are not provided for in the accompanying financial statements. In addition, the School 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.

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

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 the School's financial statements relate

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

(A Texas Nonprofit Organization)

Notes to the Financial Statements For the Years Ended August 31, 2023 and 2022

primarily to the calculation of 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.

Fair Value Measurements

The majority of the School's current assets and liabilities are considered financial instruments. These assets and liabilities are reflected at fair value; or at carrying amounts that approximate fair value because of the short maturity of the instrument. The recorded value of the financial instruments approximated fair value as of August 31, 2023 and 2022.

Functional Allocation of Expenses

The costs of providing various programs and other activities of the School 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 the School'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 the School.

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:

	2023	2022
Cash and cash equivalents	\$ 1,225,529	\$ 2,262,352
Grants receivable and reimbursable grant expenses	1,625,794	1,644,687
Total	<u>\$ 2,851,323</u>	<u>\$ 3,907,039</u>

Per the Texas Education Agency, Foundation School Program revenues should be classified as revenue with donor restrictions. However, the funds do not have a time restriction, but must be used for educational purposes in accordance with State law. As such, there are cash, investments and receivables that are due from the State and are available for use for educational purposes.

As part of the School's liquidity management, the School structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the School invests its cash in money market accounts and other short-term investments to be used for anticipated grade level expansion activities, including leasehold improvements and the purchase of related personal assets. The School also monitors its liquidity levels in order to maximize its financial ratings under the State's Financial Rating System of Texas (FIRST Ratings).

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

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Notes to the Financial Statements For the Years Ended August 31, 2023 and 2022

Reclassification

Certain expenses for the year ended August 31, 2022 were reclassified to a different category or program under the statement of functional expenses to be consistent with the financial reporting for the year ended August 31, 2023 based on AAMA's management decision for better clarification.

Adoption of New Accounting Standards

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. ASU 2016-02 changes the accounting for leases, primarily by lessees in operating leases, by requiring: (a) the recognition of (i) a lease asset (right of use) and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position and (ii) a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis, and (b) the classification of all lease payments within the operating activities in the statement of cash flows. FASB delayed the leasing standard effective date for non-public entities to December 15, 2023. The new standard increases transparency and comparability among organizations by requiring the recognition of Right of Use (ROU) assets and lease liabilities on the statement of financial position. Most prominent of the changes in the standard is recognizing ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

During fiscal year 2023, the School adopted FASB ASSU 2016-02. As a result of the adoption of the standard. The Academy recorded a Right of use asset – operating of \$581,204 relating to operating leases.

NOTE 2: CONCENTRATION OF CREDIT AND BUSINESS RISKS

The School maintains cash balances with a financial institution in the state. As of August 31, 2023 and 2022, respectively, the School's cash balance at the financial institution exceeded the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per customer by \$579,119 and \$1,706,457. As of August 31, 2023 and 2022, AAMA's School deposits at one of its banks included the sum of \$2,469,000 and \$1,926,000, respectively, in funds collateralized by U.S. Treasury Bills which provided additional coverage. 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 receivables is minimal due to the credit worthiness of the federal, state, and local funding agencies.

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(A Texas Nonprofit Organization)

Notes to the Financial Statements For the Years Ended August 31, 2023 and 2022

The State of Texas and Federal Government provided 66% and 32%, respectively, of the School's total revenues for the year ended August 31, 2023, and 74% and 23%, respectively, for the year ended August 31, 2022.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment acquired with public funds received by the School for the operation of the School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for the School.

Depreciation expense was \$394,948 and \$297,801 for the year ended August 31, 2023 and 2022, respectively.

Property and equipment as of August 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Building and Improvements	\$ 2,156,053	\$ 1,441,658
Furniture and Equipment	2,674,646	2,367,029
Total Property and Equipment	4,830,699	3,808,687
Less: Accumulated depreciation	(2,960,801)	(2,565,853)
Property and Equipment, net	<u>\$ 1,869,898</u>	<u>\$ 1,242,834</u>

NOTE 4: NET ASSETS WITH DONOR RESTRICTIONS

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 the School is considered temporarily restricted funds to be held in trust by the School for the benefit of the students of the School. During the years ended August 31, 2023 and 2022, net assets of \$15,066,696 and \$13,265,690, respectively, were released from the Texas Education Agency's and other donors' restrictions by satisfying the restrictions. Below is a summary of assets with donor restrictions as of August 31, 2023 and 2022, respectively:

	<u>Year Ended August 31,</u>	
	<u>2023</u>	<u>2022</u>
Restricted for food services	\$380,886	\$486,459
Restricted for special education	998	998
Total restricted net assets	<u>\$381,884</u>	<u>\$487,457</u>

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
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Notes to the Financial Statements
For the Years Ended August 31, 2023 and 2022

NOTE 5: MULTIEMPLOYER PENSION PLANS

AAMA is a participating employer in a multiemployer defined benefit pension plan for the benefit of the School's employees. AAMA contributes for the 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 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, 2023 and 2022:

<u>Name of Pension Fund</u>	<u>EIN and Plan Number</u>	<u>Total Plan Assets</u> (in thousands)		<u>Accumulated Benefit Obligations</u> (in thousands)		<u>% funded</u>	
		<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
TRS	N/A	\$213,472,526	\$207,621,898	\$255,860,887	\$243,553,045	73.15%	75.62%

The following presents information about AAMA's involvement in such multiemployer pension plan for the year ended August 31, 2023 and 2022:

<u>AAMA's Contributions for Year Ended August 31,</u>						
<u>Collective Bargaining Agreement</u>	<u>2023</u>	<u>2022</u>	<u>More than 5% of Total Contributions</u>	<u>FIP/RP Status</u>	<u>Surcharge Imposed</u>	
N/A	\$1,133,154	\$1,100,441	No	N/A	No	

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

(A Texas Nonprofit Organization)

**Notes to the Financial Statements
For the Years Ended August 31, 2023 and 2022****Funding Policy**

Under provisions in the State of Texas law, TRS members are required to contribute 8.00% 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 7.75% of the covered payroll of the participating employees compensated with State funds for TRS Retirement and 1.25% for TRS Care. The School's employees' contributions to the TRS System were as follows:

	Year Ended August 31	
	2023	2022
TRS Retirement	\$ 575,594	\$ 591,010
TRS Care	46,767	48,019
	<u>\$ 622,361</u>	<u>\$ 639,029</u>

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 1.7% for Non-OASDI members for covered salary. The school's employers' total administrative fee to the TRS was as follows:

	Year Ended August 31	
	2023	2022
TRS Entity Fee	\$ 53,962	\$ 55,407
TRS Entity Payment for Non-OASDI Members	129,509	125,590
	<u>\$ 183,471</u>	<u>\$ 180,997</u>

For payroll covered by federal government-funded grants, AAMA is required to contribute to the defined benefit plan matching contribution amount of 7.75% 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:

	Year Ended August 31	
	2023	2022
TRS Retirement	\$ 168,672	\$ 145,099
TRS Care	24,224	19,352
	<u>\$ 192,896</u>	<u>\$ 164,451</u>

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Notes to the Financial Statements
For the Years Ended August 31, 2023 and 2022

NOTE 6: 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, 2023 and 2022 amounted to \$181,037 and \$176,831, respectively.

NOTE 7: HEALTH CARE COVERAGE

During the years ended August 31, 2023 and 2022, employees of AAMA were covered by a health insurance plan (the Plan). During fiscal year 2023, AAMA's contribution ranged from \$548 to \$1,315 per month per employee to the Plan based on coverage. During fiscal year 2021, AAMA's contribution ranged from \$491 to \$1,048 per month per employee to the Plan based on coverage.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Contingencies

The School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency (TEA) and is subject to audit and adjustment. In addition, expenses charged to federal and state programs are subject to audit and adjustment by the grantor agencies. The programs administered by the School have multiple compliance requirements and should state or federal auditors discover areas of noncompliance, the funds may be subject to refund if so, determined by the TEA or the grantor agencies. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Litigation

No reportable litigation was pending against the School as of August 31, 2023 and 2022.

NOTE 9: RELATED ORGANIZATIONS

As described in Note 1, the School was established to assist in providing educational services to at-risk students. AAMA provides payroll services, facility maintenance and administrative support to the School. The AAMA fiscal year-end is August 31st of each year.

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Notes to the Financial Statements
For the Years Ended August 31, 2023 and 2022

NOTE 10: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 26, 2024, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

SUPPLEMENTARY INFORMATION

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GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Statements of Activities (with Comparative Totals for 2022)
For the Years Ended August 31, 2023 and 2022

		Without Donor Restrictions	With Donor Restrictions	Totals	
				2023	2022
REVENUES:					
Local support:					
5740	Other revenues from local sources	\$ 33,628	\$ -	\$ 33,628	\$ 35,635
5750	Revenue from cocurricular, enterprising services or activities	85,655	-	85,655	193,762
5769	Revenue from the city, county or other non-school district local government or administrative unit	118,563	-	118,563	167,956
	Total local support	237,846	-	237,846	397,353
State program revenues:					
5810	Foundation school program act revenues	-	9,768,737	9,768,737	10,004,889
5820	State program revenues distributed by the Texas Education Agency	-	269,474	269,474	47,016
	Total state program revenues	-	10,038,211	10,038,211	10,051,905
Federal program revenues:					
5920	Federal revenues distributed by the Texas Education Agency	-	4,877,763	4,877,763	3,177,379
5930	Federal revenues distributed by Other State of Texas government agencies	-	45,149	45,149	14,064
5940	Federal revenues distributed directly by Federal Government	-	-	-	-
	Total federal program revenues	-	4,922,912	4,922,912	3,191,443
Net assets released from restrictions:					
	Restrictions satisfied by payments	15,066,696	(15,066,696)	-	-
	TOTAL REVENUES	15,304,542	(105,573)	15,198,969	13,640,701
EXPENSES:					
11	Instruction	6,138,565	-	6,138,565	5,633,317
13	Curriculum and instructional staff development	914,527	-	914,527	574,269
21	Instructional leadership	3,100	-	3,100	2,250
23	School leadership	879,718	-	879,718	814,885
31	Guidance, counseling and evaluation services	237,834	-	237,834	213,191
32	Social work services	88,410	-	88,410	87,973
33	Health services	57,130	-	57,130	11,893
34	Student (pupil) transportation	452,611	-	452,611	372,492
35	Food services	691,958	-	691,958	667,998
36	Cocurricular/extracurricular activities	165,855	-	165,855	187,170
41	General administration	969,729	-	969,729	2,041,935
51	Plant maintenance and operations	3,523,972	-	3,523,972	2,365,839
52	Security and monitoring services	539,264	-	539,264	495,160
53	Data processing services	227,273	-	227,273	157,118
61	Community services	405,681	-	405,681	14,599
81	Fundraising	442,328	-	442,328	14,599
	TOTAL EXPENSES	15,737,955	-	15,737,955	13,654,688
	CHANGE IN NET ASSETS	(433,413)	(105,573)	(538,986)	(13,987)
	NET ASSETS, BEGINNING OF YEAR	2,092,001	487,457	2,579,458	2,578,846
	NET ASSETS, END OF YEAR	\$ 1,658,588	\$ 381,884	\$ 2,040,472	\$ 2,564,859

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Schedules of Expenses
For the Years Ended August 31, 2023 and 2022

		TOTALS	
		2023	2022
EXPENSES:			
6100	Payroll costs	\$ 7,752,462	\$ 7,760,335
6200	Professional and contracted services	5,778,414	4,421,588
6300	Supplies and materials	1,132,635	813,666
6400	Other operating costs	1,074,444	644,500
		<u>\$ 15,737,955</u>	<u>\$ 13,640,089</u>

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Schedules of Capital Assets
For the Years Ended August 31, 2023 and 2022

	2023				2022			
	Ownership Interest			Total	Ownership Interest			Total
	Local	State	Federal		Local	State	Federal	
Building and improvements	\$ -	\$ 1,783,078	\$ 372,975	\$ 2,156,053	\$ -	\$ 1,079,776	\$ 361,882	\$ 1,441,658
Furniture and equipment	60,122	2,293,003	321,521	2,674,646	60,122	2,086,537	220,370	2,367,029
Total capital assets	<u>\$ 60,122</u>	<u>\$ 4,076,081</u>	<u>\$ 694,496</u>	<u>\$ 4,830,699</u>	<u>\$ 60,122</u>	<u>\$ 3,166,313</u>	<u>\$ 582,252</u>	<u>\$ 3,808,687</u>

Reconciliation of Total Assets Shown on the Schedule of Capital Assets, see above, to Note 3 on page 14:

	2023 - Total	2022 - Total
<i>Building and Improvements:</i>		
Per Schedule of Capital Assets (see schedule above)	\$ 2,156,053	\$ 1,441,658
Less: Accumulated depreciation as of year end	<u>(1,060,428)</u>	<u>(965,292)</u>
	\$ 1,095,625	\$ 476,366
<i>Furniture and Equipment:</i>		
Per Schedule of Capital Assets (see schedule above)	2,674,646	2,367,029
Less: Accumulated depreciation as of year end	<u>(1,900,373)</u>	<u>(1,600,561)</u>
	774,273	766,468
<i>Construction in progress:</i>	<u>-</u>	<u>-</u>
Per Schedule of Assets, Liabilities & Net Assets	<u>\$ 1,869,898</u>	<u>\$ 1,242,834</u>

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

**Budgetary Comparison Schedule
For the Year Ended August 31, 2023**

	Budgeted Amounts		Actual Amounts	Actual Compared to Final Budgeted Amounts		Explanation (see references)	Final Compared to Original Budgeted Amounts		Explanation (see references)
	Original	Final		\$ Variance	% Variance		\$ Variance	% Variance	
REVENUES:									
Local support:									
5740 Other revenues from local sources	\$ 33,628	\$ 33,628	\$ 33,628	\$ -	0%		\$ -	0%	
5750 Revenue from co-curricular, enterprising services or activities	29,290	29,290	85,655	56,365	192%	{a}	-	0%	
5760 Miscellaneous Revenue from Intermediate Sources	118,563	118,563	118,563	-	0%		-	0%	
Total local support	181,481	181,481	237,846	56,365			-		
State program revenues:									
5810 Foundation school program act revenues	9,293,736	9,293,736	9,768,737	475,001	5%		-	0%	
5820 State program revenues distributed by the Texas Education Agency	269,474	269,474	269,474	-	0%		-	0%	
Total state program revenues	9,563,210	9,563,210	10,038,211	475,001			-		
Federal program revenues:									
5920 Federal revenues distributed by the Texas Education Agency	4,883,698	4,883,698	4,877,763	(5,935)	0%		-	0%	
5930 Federal revenues distributed by Other State of Texas government agencies	45,149	45,149	45,149	-	0%		-	0%	
Total state program revenues	4,928,847	4,928,847	4,922,912	(5,935)			-		
TOTAL REVENUES	14,673,538	14,673,538	15,198,969	525,431			-		
EXPENSES:									
11 Instruction	6,182,376	6,182,376	6,138,565	43,811	1%		-	0%	
13 Curriculum and instructional staff development	503,872.00	503,872.00	914,527	(410,655)	-81%	{b}	-	0%	
21 Instructional leadership	3,100	3,100	3,100	-	0%		-	0%	
23 School leadership	879,718	879,718	879,718	-	0%		-	0%	
31 Guidance, counseling and evaluation services	170,200	170,200	237,834	(67,634)	-40%	{c}	-	0%	
32 Social work services	88,410	88,410	88,410	-	0%		-	0%	
33 Health services	57,130	57,130	57,130	-	0%		-	0%	
34 Student (pupil) transportation	452,611	452,611	452,611	-	0%		-	0%	
35 Food services	655,309	655,309	691,958	(36,649)	-6%		-	0%	
36 Cocurricular/extracurricular activities	165,855	165,855	165,855	-	0%		-	0%	
41 General administration	2,314,986	2,314,986	969,729	1,345,257	58%	{d}	-	0%	
51 Plant maintenance and operations	3,258,206	3,258,206	3,523,972	(265,766)	-8%		-	0%	
52 Security and monitoring services	539,264	539,264	539,264	-	0%		-	0%	
53 Data processing services	227,273	227,273	227,273	-	0%		-	0%	
61 Community services	10,154	10,154	405,681	(395,527)	-3895%	{e}	-	0%	
81 Fundraising	-	-	442,328	(442,328)	100%	{f}	-	100%	
TOTAL EXPENSES	15,508,464	15,508,464	15,737,955	(229,491)			-		
CHANGE IN NET ASSETS	(834,926)	(834,926)	(538,986)	295,940			-		
NET ASSETS, BEGINNING OF YEAR	1,159,586	1,159,586	2,579,458	1,419,872			-		
NET ASSETS, END OF YEAR	\$ 324,660	\$ 324,660	\$ 2,040,472	\$ 1,715,812			\$ -		

Reference:

- {a} Unanticipated local one-time revenue.
- {b} Budget did not account for extra funding from special grants.
- {c} Budget did not account for extra funding from special grants.
- {d} Actual general admin expenses were allocated to proper function codes based on the activities.
- {e} Actual general admin expenses were allocated to proper function codes based on the activities.
- {f} Actual general admin expenses were allocated to proper function codes based on the activities.

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

**Schedule of Real Property Ownership Interest
For the Year Ended August 31, 2023**

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
Sanchez North Campus	215 Rittenhouse St. Houston, Tx 77076	\$ 2,156,053	\$ -	\$ 1,783,078	\$ 372,975

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

**Schedule of Related Party Transactions
For the Year Ended August 31, 2023**

Related Party Name	Name of Relation to the Related Party	Relationship	Type of Transaction	Description of Terms and Conditions	Source of Funds Used	Payment Frequency	Total Paid During FY	Principal Balance Due
AAMA	Program in Non-Profit	Charter Holder	Occupancy	Intercompany cost paid through charter holder	State Foundation	Monthly	\$ 1,280,637	\$ -
AAMA	Program in Non-Profit	Charter Holder	Indirect	Intercompany cost paid through charter holder	State Foundation	Monthly	\$ 1,147,381	\$ 2,438,490

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Schedule of Related Party Compensation and Benefits
For the Year Ended August 31, 2023

None reported

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Schedule J-4
For the Year Ended August 31, 2023

Data Codes		Column 1 Responses
	Section A: Compensatory Education Programs	
	Districts are required to use at least 55% of state compensatory education state allotment funds on direct program costs. Statutory Authority: Texas Education Code, §48.104.	
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$1,526,432
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$843,069
	Section B: Bilingual Education Programs	55.23%
	Districts are required to spend at least 55% of bilingual education state allotment funds on direct program costs. Statutory Authority: Texas Education Code, §48.105.	
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	\$258,846
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	\$394,915
		152.57%

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COMPLIANCE AND INTERNAL CONTROLS

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
George I. Sanchez Charter School - Houston

We have audited, 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, the financial statements of George I. Sanchez Charter School - Houston (the "School"), which comprise the statements of financial position as of August 31, 2022 and 2021, 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 26, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

McConnell & Jones LLP

Houston, Texas
January 26, 2024

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Summary Schedule of Findings and Responses
Year Ended August 31, 2023

SECTION 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 weakness identified? | Yes |
| b) Significant deficiencies identified, which are not
considered to be material weaknesses? | No |
| c) Noncompliance material to financial statements noted? | No |

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON

(A Texas Nonprofit Organization)

Summary Schedule of Findings and Responses Year Ended August 31, 2023

SECTION 2:

FINDINGS – FINANCIAL STATEMENT AUDIT

2023-001 Financial Close and Reporting, Material Weakness

Criteria: George I. Sanchez Charter School - Houston (the “School”) internal control structure should ensure that financial information is complete, accurate, and made available in a timely and orderly manner.

Condition: The School’s books and records for 2023 fiscal year were not reconciled and closed in a timely manner. As a result, numerous adjusting entries were made by the client after the start of the audit process. As a result of these numerous misstatements, the financial records of the Academy were materially misstated both during the year and at the beginning of the audit process.

Cause: A thorough review and reconciliation of monthly and of year-end balances was not performed in a timely manner to ensure that account balances were calculated and recorded in accordance with generally accepted accounting principles.

Effect: The financial records of the School were materially misstated both during the year and at the beginning of the audit process.

Recommendation: We recommend that the School develop and maintain monthly and annual closing procedures to ensure that account reviews and reconciliations are completed accurately and timely.

Managements Response: During the audit, the School’s newly appointed executive leader came to recognize the need for support and approved the hire of an outside audit consultant to manage the audit process with finance office staff. Further, management recognized the need for increased support in-house and contracted with an experienced charter and non-profit finance and accounting firm as the charter and sponsoring entity’s Chief Financial Officer (CFO). The CFO position was previously vacated in FY23. The new CFO consultant firm has already begun working to address the issues brought forth by the auditor and audit consultant. A forensic assessment of policies, accounting practices, and financial management has been underway since January 1, 2024. This has been shared with the auditor and promises to bring critical financial and accounting changes to the School and their sponsoring entity. This will give a clear financial picture of the charter school’s activities and the additional supporting programs under their sponsoring entity, The Association for the Advancement of Mexican Americans (AAMA). This finding will be cured during FY24.

Summary Schedule of Findings and Responses

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Summary Schedule of Findings and Responses
Year Ended August 31, 2023

FINDINGS – STATE COMPLIANCE AND REPORTING REQUIREMENTS

None reported

GEORGE I. SANCHEZ CHARTER SCHOOL - HOUSTON
(A Texas Nonprofit Organization)

Summary Schedule of Prior Year Findings and Current Status
Year Ended August 31, 2023

None reported