

SER-NINOS, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2018

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SER-NINOS, INC.
(Federal Employer Identification Number 76-0511534)
101-802

CERTIFICATION OF BOARD
August 31, 2018

We, the undersigned, certify that the attached Annual Financial and Compliance Report of SER-Ninos, Inc. was reviewed and approved disapproved for the year ended August 31, 2018, at a meeting of the governing body of said charter school on the 17th day of January, 2019.


Signature of Board Secretary


Signature of Board President

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
SER-Ninos, Inc.
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of SER-Ninos, Inc. (SER, Inc.) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SER, Inc. as of August 31, 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of SER, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SER, Inc.'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 SER, Inc.'s internal control over financial reporting and compliance.



Houston, TX
December 10, 2018

SER NINOS, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

ASSETS

Current Assets:

Cash	\$ 5,808,440
Restricted Cash	581,420
Certificate of Deposit	259,936
Grants Receivable	760,649
Other Receivables	27,511
Total Current Assets	<u>7,437,956</u>

Property & Equipment

Land	3,471,664
Buildings	22,827,468
Construction in Progress	8,963
Equipment and Furniture	641,432
	<u>26,949,527</u>
Less: Accumulated Depreciation	<u>(5,787,760)</u>
	<u>21,161,767</u>

Total Assets \$ 28,599,723

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 147,153
Accrued Liabilities	184,792
Wages Payable	281,942
Interest Payable	18,237
Current Portion of Notes Payable	362,615
Current Portion of Bonds Payable	310,000
Total Current Liabilities	<u>1,304,739</u>

Long-term Liabilities:

Notes Payable Net of Current Portion	4,232,524
Bonds Payable Net of Issuance Cost, Discount and Current Portion	7,111,759
Total Liabilities	<u>12,649,022</u>

Net Assets:

Unrestricted	4,365,302
Temporarily Restricted	11,585,399
Total Net Assets	<u>15,950,701</u>
Total Liabilities and Net Assets	<u>\$ 28,599,723</u>

See accompanying notes to financial statements.

SER NINOS. INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 196,426	\$	\$ 196,426
5750 Revenue from Curricular	<u>53,571</u>		<u>53,571</u>
Total Local Support	<u>249,997</u>		<u>249,997</u>
State Program Revenues			
5810 Foundation School Program Act Revenues		10,035,491	10,035,491
5820 State Program Revenues Distributed by Texas Education Agency		<u>8,364</u>	<u>8,364</u>
Total State Program Revenues		<u>10,043,855</u>	<u>10,043,855</u>
Federal Program Revenues:			
5910 Federal Revenues Distributed Through 5920 Federal Revenues Distributed by Texas Education Agency		1,834,539	1,834,539
5940 Federal Revenues Distributed Directly From the Federal Government		<u>171,272</u>	<u>171,272</u>
Total Federal Program Revenues		<u>2,005,811</u>	<u>2,005,811</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>10,603,635</u>	<u>(10,603,635)</u>	<u>-</u>
Total Revenues	<u>10,853,632</u>	<u>1,446,031</u>	<u>12,299,663</u>
EXPENSES			
11 Instruction	5,978,309		5,978,309
12 Instructional Resources and Media Services	499		499
13 Curriculum Development and Instructional Staff Development	6,240		6,240
23 School Leadership	430,532		430,532
31 Guidance, Counseling, and Evaluation Services	4,500		4,500
33 Health Services	64,283		64,283
35 Food Service	839,219		839,219
36 Cocurricular/Extracurricular Activities	102,590		102,590
41 General Administration	451,617		451,617
51 Facilities Maintenance and Operations	1,903,206		1,903,206
52 Security and Monitoring Services	177,554		177,554
53 Data Processing Services	51,956		51,956
61 Community Services	46,895		46,895
71 Debt Services	668,960		668,960
81 Fund Raising	<u>127,272</u>		<u>127,272</u>
Total Expenses	<u>10,853,632</u>		<u>10,853,632</u>
Change in Net Assets		<u>1,446,031</u>	<u>1,446,031</u>
Net Assets, Beginning of Year	<u>4,365,302</u>	<u>10,139,368</u>	<u>14,504,670</u>
Net Assets, End of Year	<u>\$ 4,365,302</u>	<u>\$ 11,585,399</u>	<u>\$ 15,950,701</u>

See accompanying notes to financial statements.

SER NINOS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2018

Cash Flows From Operating Activities	
Change in Net Assets	\$ 1,446,031
Adjustments to Reconcile Change in Net Assets to Net	
Cash provided (used) by Operating Activities:	
Depreciation	728,447
Amortization	18,399
(Increase) decrease in Other Receivable	24,454
(Increase) decrease in Grants Receivable	(426,631)
Increase (decrease) in Accounts Payable	(451,352)
Increase (decrease) in Interest Payable	(620)
Increase (decrease) in Accrued Liabilities	34,809
Increase (decrease) in Wages Payable	26,868
 Total Adjustments	 <u>(45,626)</u>
 Net Cash Provided (Used) by Operating Activities	 <u>1,400,405</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	(207,150)
Interest Reinvestment on Certificate of Deposit	<u>(450)</u>
 Net Cash Provided (Used) by Investing Activities	 <u>(207,600)</u>
Cash Flows From Financing Activities	
Proceeds from Loans	18,135
Repayment of Notes	(707,060)
Repayment of Bonds	<u>(310,000)</u>
 Net Cash Provided (Used) by Financing Activities	 <u>(998,925)</u>
 NET INCREASE (DECREASE) IN CASH	 <u>193,880</u>
CASH AT BEGINNING OF YEAR	<u>6,195,980</u>
CASH AT END OF YEAR	<u><u>\$ 6,389,860</u></u>
 <u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u><u>\$ 668,960</u></u>

See accompanying notes to financial statements.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

A. Organization:

SER-Ninos, Inc. (Ser, Inc.)(Corporation), a nonprofit organization, was incorporated in the State of Texas in 1996, under the Texas Non-Profit Corporation Act. The Internal Revenue Service determined that the organization was exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Pursuant to its charter granted by the State Board of Education in accordance with Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School, the organization operates as part of the state public school system subject to all federal and state laws and rules governing public schools. The organization is also subject to all laws and rules pertaining to open-enrollment charter schools in section 12 of the Texas Education Code.

The organization provides elementary education to approximately 1,092 children with half-day programs for three year old students and full day programs for pre-kindergarten through eighth grade. It is managed by an eight member Board of Directors that has the exclusive power and duty to direct the supervision, management, and administration of the organization's activities.

The charter holder, SER-Ninos, Inc., only operates a single charter school and does not conduct any other charter or non-charter activities.

B. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION

SER-Ninos, Inc. reports its financial information based on the *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-205 Presentation of Financial Statements*. Under *FASB ASC 958-205*, an organization is required 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.

Unrestricted net assets

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the corporation. Board-designated net assets represent amounts the corporation has set aside for a specific purpose.

Temporarily restricted net assets

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Permanently restricted net assets

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

B. Summary of Significant Accounting Policies: (Continued)

SUPPORT AND REVENUE

Support and revenue are recorded based on the accrual method.

CASH DONATIONS AND DONATED SERVICES

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program service and administration of the organization.

CONTRIBUTIONS

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-605 Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

PROPERTY AND EQUIPMENT

Property and equipment purchased by SER-Ninos, Inc. are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All purchases and donations in excess of \$5,000 are capitalized. Depreciation is provided on the straight-line method based upon estimated useful lives of five years for equipment, seven years for furniture, fifteen years for building and land improvements, and thirty years for buildings. Gains or losses on retired or sold property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

PLEDGES AND ACCOUNTS RECEIVABLE

Contributions are recognized when the donor makes a promise to give a contribution to SER-Ninos, Inc. 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 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.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

B. Summary of Significant Accounting Policies: (Continued)

FUNCTIONAL EXPENSES

Expenses are charged to each program based on direct expenditures incurred. Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the organization's multiple function expenditures.

INCOME TAXES

SER-Ninos, Inc. qualifies as a tax-exempt organization under section 501(c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

CASH AND CASH EQUIVALENTS

SER-Ninos, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in demand accounts at a bank. The accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The bank accounts, at times, exceeded federally insured limits. Even though the organization has not experienced any losses on such accounts, arrangements should be made to avoid potential, future losses.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires SER-Ninos, Inc. management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Pension Plan:

Plan Description

The charter school contributes to the Teacher Retirement System of Texas ("TRS"), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers the retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

C. Pension Plan: (Continued)

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees.

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.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district (“ISD”) may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The latest TRS Comprehensive Annual Financial Report available dated August 31, 2018 provided the following information (ABO refers to the accumulated benefit obligation):

Pension Fund	Total Plan Assets 2018	ABO 2018	Percent Funded
TRS	\$ 176,942,454,000	\$ 209,611,329,000	73.74%

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. State law provides for a member contribution rate of 7.7% for fiscal year 2018, and a state contribution rate of 6.8% for fiscal year 2018. The charter school’s employee contributions to the system for the year ended August 31, 2018 were \$425,129, equal to the required contributions for the year.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

C. Pension Plan: (Continued)

Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum were contributed at a rate of 6.8% totaling \$ 39,946 for the year ending August 31, 2018. The charter school's contributions into this plan do not represent more than 5% of the total contributions to the plan and the charter school was not assessed a surcharge.

D. Budget:

The official school budget is prepared for adoption for required Governmental Fund Types. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

E. Operating Lease Commitment:

SER-Ninos, Inc. is currently leasing its copy machines on a non-cancellable operating lease agreement.

The organization's minimum annual lease commitment is as follows:

<u>Twelve months ending</u>	<u>Amount</u>
<u>August 31,</u>	
2019	32,131
2020	26,810
2021	26,810
2022	<u>15,639</u>
Total	<u>\$ 101,390</u>

Operating lease expense amounted to \$46,229 for the twelve months ended August 31, 2018.

F. Health Care Coverage:

During the year ended August 31, 2018, employees of the organization were covered by a Health Insurance Plan (the Plan). The organization contributed \$ 357 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

G. Commitments and Contingencies:

The charter 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, and it is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency. The school is economically dependent on these charter school funds.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

H. Notes Payable:

SER-Ninos, Inc.'s obligations under notes payable consists of the following:

Construction Loan from Amegy Bank. The loan is dated December 7, 2010, has a 4.40% interest rate, and a face amount of \$ 6,000,000, secured by land and building. Date of maturity is December 7, 2020.	\$ 4,433,222
Construction Loan from Amegy Bank. The loan is dated August 31, 2016, has a 3.75% interest rate, and a face amount of \$ 3,000,000, secured by land and building. Date of maturity is December 23,2022.	<u>161,917</u>
Total Notes Payable	<u>4,595,139</u>
Less Current Portion of Notes Payable	<u>(362,615)</u>
Long-term Portion of Notes Payable	<u>\$ 4,232,524</u>

Maturities of notes payable over the next five years are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 362,615	\$ 193,978	\$ 556,593
2020	382,245	177,651	559,896
2021	3,726,952	58,720	3,785,672
2022	<u>123,327</u>	<u>2,642</u>	<u>125,969</u>
Total	<u>\$ 4,595,139</u>	<u>\$ 432,991</u>	<u>\$ 5,028,130</u>

I. Debt Covenant:

The loan agreements contain the following restrictions and covenants:

The Organization will maintain a Cash Flow Coverage Ratio of not less than 1.25 to 1.00 to be tested yearly. The term Cash Flow Coverage Ratio should mean for this loan: the Organization's net earnings before interest, taxes, depreciation and amortizations, divided by the sum of the Organization's current maturities of long term debt plus interest expense. As of 8/31/18, the Organization was in compliance with debt covenants with a Cash Flow Coverage Ratio of 2.21 to 1.

In addition the Organization must have a current market value of unencumbered liquid assets at all times equal to or greater than \$250,000. As of 8/31/18, the Organization was in compliance with the total value of unencumbered liquid assets of \$ 5,772,117.

J. Restricted Cash:

Restricted cash of \$581,420 at August 31, 2018 consisted of debt service reserve fund bond and capital campaign cash accounts. These funds are to be solely used in the repayment of bond liabilities, capital improvements and cannot be used for normal operating expenditures.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

K. Bonds Payable:

SER-Ninos, Inc. has secured bond financing pursuant to Chapter 53 of the Texas Education Code of “Qualified Tax Exempt” Education Revenue Bonds, \$4,475,000 of Tax-Exempt Education Revenue Bonds, Series 2012A and \$5,110,000 Qualified School Construction Bonds, Series 2012Q. The bonds are limited obligations of the issuer payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower. None of the state, the city, nor any political corporation, subdivision, or agency of the state is pledged to the payment of the principal of premium, or interest on the bonds.

Bonds payable at August 31, 2018 consist of the following:

2012A Bonds, 5.79% interest; principle and interest due in semi-annual installments, commencing August 15, 2012; Maturity dates range from 2012 to 2041. \$ 4,015,000

2012Q Bonds, 4.50% interest; principle and interest due in semi-annual installments, commencing August 15, 2012; Maturity dates range from 2013 to 2030. 3,765,000

Total	<u>\$ 7,780,000</u>
Less current portion of bonds payable	(310,000)
Less unamortized discount	(22,859)
Less unamortized cost of issuance	<u>(335,382)</u>
Long-term portion of bonds payable net of discount	<u><u>\$ 7,111,759</u></u>

Future maturities of long-term debt at August 31, 2018 are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 310,000	\$ 410,325	\$ 720,325
2020	310,000	396,375	706,375
2021	310,000	382,425	692,425
2022	315,000	368,475	683,475
2023	315,000	354,300	669,300
Thereafter	<u>6,220,000</u>	<u>3,666,300</u>	<u>9,886,300</u>
Total	<u>\$ 7,780,000</u>	<u>\$ 5,578,200</u>	<u>\$ 13,358,200</u>

L. Bond Debt Covenants:

The bond agreements contain certain restrictions and covenants. SER-Ninos, Inc. must maintain a debt service reserve fund which is required to maintain a minimum balance of \$ 510,900. At August 31, 2018, the debt service reserve fund had a balance of \$520,421.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

L. Bond Debt Covenants: (Continued)

Additionally, SER-Ninos, Inc. is required to maintain a debt service coverage Ratio of not less than 1.10 to 1.00 for Series 2012A Bonds and 1.25 to 1.00 for Series 2012Q Bonds at the end of the fiscal year. At August 31, 2018, the Organization was in compliance with debt covenants with a debt service coverage ratio of 1.43.

M. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2018, are available for the following periods:

Periods after August 31, 2018	
State TEA funds	\$ 11,524,400
Capital Campaign funds	<u>60,999</u>
Total restricted funds	<u>\$ 11,585,399</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

State Funds	\$ 8,597,824
Federal Funds	<u>2,005,811</u>
Total restrictions released	<u>\$ 10,603,635</u>

N. SER Ninos, Inc. Houston Special Education Cooperative:

SER Ninos, Inc. Houston Special Education Cooperative received \$482,504 in IDEA-B Formula funds for the year ended August 31, 2018. The cooperative has a TEA approved Shared Services Arrangement (SSA) with the following member schools/ entities, member revenue and member expense for the year ended August 31, 2018:

<u>Member/ Entity</u>	<u>Revenue</u>	<u>Expense</u>
Alief Montessori	\$ 38,081	\$ 38,081
GIS Houston	149,111	149,111
Heights Charter	48,270	48,270
U of H Charter	16,910	16,910
SER Ninos	153,666	153,666
Two Dimensions Charter	76,466	76,466
Total IDEA-B Formula Funds	<u>\$ 482,504</u>	<u>\$ 482,504</u>

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

O. Certificate of Deposits:

Ser Ninos has renewed a \$259,936 six-month certificate of deposit with an interest rate of .25%. The certificate of deposit has a maturity date of December 14, 2018 and will automatically renew for a six month period.

P. Evaluation of Subsequent Events:

SER Ninos, Inc. has evaluated subsequent events through December 10, 2018, the date which the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors of
SER-Ninos, Inc.
Houston, Texas

We have audited the financial statements of SER-Ninos, Inc. (SER, Inc.) as of and for the year ended August 31, 2018, and our report thereon dated December 10, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules for Individual Charter School dated August 31, 2018, and appearing on pages 16 to 20, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Houston, Texas
December 10, 2018

SER NINOS, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

Expenses	
6100 Payroll Costs	\$ 6,325,688
6200 Professional and Contracted Services	1,962,159
6300 Supplies and Materials	734,577
6400 Other Operating Costs	1,162,248
6500 Debt	668,960
Total Expenses	<u>\$ 10,853,632</u>

See accompanying notes to financial statements.

SER NINOS, INC.
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2018

	Ownership Interest		
	Local	State	Federal
1110 Cash & Investments	\$ 470,125	\$ 6,179,671	\$
1510 Land and Improvements	1,522,192	1,949,472	
1520 Buildings and Improvements	20,623,072	204,396	2,000,000
1539 Furniture and Equipment	31,953	609,479	
1580 Construction in Progress		8,963	
Total Property and Equipment	<u>\$ 22,647,342</u>	<u>\$ 8,951,981</u>	<u>\$ 2,000,000</u>

See accompanying notes to financial statements.

SER NINOS, INC.

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2018

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 777,514	\$ 377,949	\$ 196,426	\$ (181,523)
5750 Food Service Sales	52,500	53,512	53,571	59
Total Local Support	830,014	431,461	249,997	(181,463)
State Program Revenues:				
5810 Foundation School Program Act Revenues	10,479,313	9,767,888	10,035,491	267,603
5820 State Program Revenues Distributed by Texas Education Agency	67,474	47,164	8,364	(38,800)
Total State Program Revenues	10,546,787	9,815,052	10,043,855	228,803
Federal Program Revenues:				
5910 Federal Revenues Distributed Through Government Entities Other than State or Federal			0	
5920 Federal Revenues Distributed by Texas Education Agency	1,737,456	1,823,014	1,834,539	11,525
5930 Federal Revenues Distributed by Texas Education Agency	0	0	0	
5940 Federal Revenues Distributed by From the Federal Government			171,272	171,271
Total Federal Program Revenues	1,737,456	1,823,014	2,005,811	182,797
Total Revenues	13,114,257	12,069,527	12,299,663	230,136
EXPENSES				
11 Instruction	6,229,565	6,174,487	5,978,309	196,178
12 Instructional Resources and Media Services	117,315	499	499	
13 Curriculum Development and Instructional Staff Development	8,680	4,480	6,240	(1,760)
23 School Leadership	486,025	430,532	430,532	
31 Guidance, Counseling, and Evaluation Services	7,450	4,500	4,500	
33 Health Services	108,982	63,031	64,283	(1,252)
35 Food Service	620,402	835,226	839,219	(3,993)
36 Cocurricular/Extracurricular Activities	65,000	102,590	102,590	(0)
41 General Administration	538,335	449,534	451,617	(2,083)
51 Facilities Maintenance and Operations	1,561,168	1,931,058	1,903,206	27,852
52 Security and Monitoring Services	199,810	177,554	177,554	
53 Data Processing Services	73,500	51,956	51,956	
61 Community Services	30,189	46,895	46,895	1
71 Debt Services	754,300	651,181	668,960	(17,779)
81 Fund Raising	365,000	129,355	127,272	2,083
Total Expenses	11,165,721	11,052,878	10,853,632	199,246
Change in Net Assets	1,948,536	1,016,649	1,446,031	429,382
Net Assets, Beginning of Year	14,504,670	14,504,670	14,504,670	
Net Assets, End of Year	\$16,453,206	\$15,521,319	\$15,950,701	\$ 429,382

See accompanying notes to financial statements.

SER-NINOS, INC.

BUDGETARY VARIANCE EXPLANATION

FOR THE YEAR ENDED AUGUST 31, 2018

MATERIAL BUDGET VARIANCE REVENUE

(1) The following is an explanation of the 10% variances from original budget to final budget reported on the Budgetary Comparison Schedule for the year ending August 31, 2018.

Object 5740- The amount of variance was due to reclassification of revenue and overestimation for private donations and grants.

Object 5820- The amount of variance was due grants received being less than budgeted.

(2) The following is an explanation of the 10% variances from final budget to actual revenue reported on the Budgetary Comparison Schedule for the year ending August 31, 2018.

Object 5740- The amount of the variance was due to reclassification of revenue and investment income recognized.

Object 5820- The amount of the variance was due to school lunch match and textbook grant being overstated.

Object 5940- The amount of the variance was due to reclassification of IRS subsidy

SER-NINOS, INC.

BUDGETARY VARIANCE EXPLANATION

FOR THE YEAR ENDED AUGUST 31, 2018

MATERIAL BUDGET VARIANCE EXPENDITURES

(1) The following is an explanation of the 10% variances from original budget to final budget reported on the Budgetary Comparison Schedule for the year ending August 31, 2018.

- Function 12 – The amount of the variance was due to budgeted library position not hired.
- Function 13 – The amount of the variance was due to staff registration being less than expected and training expense by Success for All foundation not incurred.
- Function 23 - The amount of variance was due to purchase of less office supplies.
- Function 31 - The amount of variance was due to elevation of yearly subscription fee instead of contract sign up.
- Function 33 – The amount of variance was due to nurse going from full time position to part time.
- Function 35 – The amount of the variance was due to increase in rates for lunches and breakfast plus addition of 50 students.
- Function 36 – The amount of variance was due to school conducting more field trips and related cost of bus rentals.
- Function 41 – The amount of variance was due to fewer hours by payroll / AP Contractor and no replacement of AP clerk.
- Function 51 – The amount of variance was due to revised budget according to services provided including 60% increase in XO internet services plus additional depreciation.
- Function 52 – The amount of variance was due to less security services expense, since there was not increase in hourly rate of primary security vendor.
- Function 53 – The amount of variance was due to less background check service fees and additional software was no purchased.
- Function 61 – The amount of variance include was due to more community outreach events conducted.
- Function 71 – The amount of the variance was due to debt service budget revised with more funds allocated to principle than to interest expense.
- Function81– The amount of variance was due to reduction in public relation and marketing activities, no membership of networking organizations and fundraising support software.

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

To The Board of Directors of
SER-Ninos, Inc.
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of SER-Ninos, Inc. (SER, Inc.) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control Over Financial Reporting

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

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

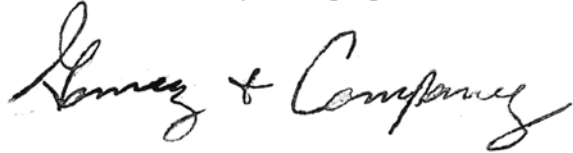
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Ramirez & Company". The signature is written in black ink and is positioned above the typed text.

Houston, TX
December 10, 2018

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

To The Board of Directors of
SER-Ninos, Inc.
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited SER-Ninos, Inc. (SER, Inc.) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of SER, Inc.'s major federal programs for the year ended August 31, 2018. SER, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SER, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SER, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SER, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion SER-Ninos, Inc. (SER, Inc.) 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, 2018.

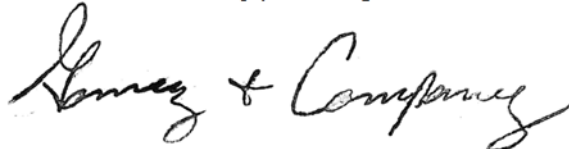
Report on Internal Control Over Compliance

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

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

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

The purpose of 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.



Houston, TX
December 10, 2018

SER-NINOS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2018

Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. No instances of noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses on internal control over major federal award programs.
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any audit findings which are required to be reported in accordance with 2 CFR section 200.516(a).
7. Major programs:
 - U.S. Department of Agriculture
 - Passed – Through Texas Education Agency
 - National School Lunch Program* CFDA Number 10.555
 - School Breakfast Program* CFDA Number 10.553
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. SER, Inc. qualifies as a low-risk auditee.

Current Year Findings

No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a).

Questioned
Costs

\$ -0-

* Denotes cluster

SER-NINOS, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2018

No findings were noted as per governmental auditing standards and 2 CFR section 200.516 (a) for the year ended August 31, 2017.	\$	-0-
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SER NINOS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2018

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures	Amount Relating to Subrecipients
<u>U.S. Department of Education</u>				
Passed - Through Texas Education Agency:				
ESEA, Title I, Part A	84.010A	18610101101802	\$ 590,567	
ESEA, Title II, Part A Teacher and Principal	84.367A	18694501101802	54,368	
ESEA, Title III, Part A - LEP	84.365A	18671001101802	92,105	
ESEA, Title III, LEP Summer School	84.369A	69551702	9,497	
IDEA-B, Formula	84.027A	186600011018026000	153,666	328,838
ESEA, Title IV, Part A, Supart 1	84.424A	18680101101802	7,900	
Emergency Impact Aid to LEAs	84.938C	51271901	246,882	
Total U.S. Department of Education			1,154,985	328,838
<u>U.S. Department of Agriculture</u>				
Passed - Through Texas Education Agency				
Federal Food Service Reimbursement				
Breakfast	10.553	71401701	10,189	
Breakfast	10.553	71401801	98,978	
Lunch	10.555	71301701	47,817	
Lunch	10.555	71301801	468,082	
			625,066	-
Passed - Through Texas Department of Human Services				
USDA Commodity Food Distribution	10.555	101201A	54,488	
			54,488	-
Total U.S. Department of Agriculture			679,554	-
Total Expenditures of Federal Awards			\$ 1,834,539	\$ 328,838

SER-NINOS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2018

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes the federal grant activity of SER-Ninos, Inc. (SER, Inc.) under programs of the federal government for the year ended August 31, 2018. The information in this 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 the operation of SER, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of SER, Inc.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

SER, Inc. has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – OTHER SOURCES OF FEDERAL REVENUES

Other sources of federal revenues are \$171,272 in tax credits for qualifying bonds, which are not includible in the Schedule of Expenditures of Federal Awards (SEFA).

Reconciliation of Federal Revenues and (SEFA):

Total expenditure of federal awards per the SEFA	\$ 1,834,539
Q-Series Bond Subsidy Revenue / Expenditure	<u>171,272</u>
Total federal revenues per the Statement of Activities	<u>\$ 2,005,811</u>