

SER-NINOS, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2015

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

CERTIFICATION OF BOARD
August 31, 2015

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, 2015, at a meeting of the governing body of said charter school on the 17 day of December, 2015.



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, 2015, and the related statements of activities 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, 2015, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 17, 2015, 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 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.

A handwritten signature in cursive script, likely representing the auditing firm, is written in black ink. The signature is stylized and appears to read "Honey & Company".

Houston, TX
December 17, 2015

SER NINOS, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2015

ASSETS

Current Assets:

Cash	\$ 3,401,603
Restricted Cash	531,145
Grants Receivable	439,673
Other Receivables	<u>73,259</u>
Total Current Assets	<u>4,445,680</u>

Property & Equipment

Land	3,470,943
Buildings	19,219,410
Construction in Progress	164,154
Equipment and Furniture	<u>364,548</u>
	23,219,055
Less: Accumulated Depreciation	<u>(3,667,075)</u>
	<u>19,551,980</u>

Other Assets

Bond Issuance Cost	<u>387,550</u>
Total Assets	<u><u>\$ 24,385,210</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 157,330
Accrued Liabilities	163,620
Wages Payable	192,772
Interest Payable	20,087
Current Portion of Notes Payable	227,331
Current Portion of Bonds Payable	<u>305,000</u>
Total Current Liabilities	<u>1,066,140</u>

Long-term Liabilities:

Notes Payable Net of Current Portion	4,975,884
Bonds Payable Net of Discount and Current Portion	<u>8,374,112</u>
Total Liabilities	<u>14,416,136</u>

Net Assets:

Unrestricted	4,274,987
Temporarily Restricted	<u>5,694,087</u>
Total Net Assets	<u>9,969,074</u>
Total Liabilities and Net Assets	<u><u>\$ 24,385,210</u></u>

See accompanying notes to financial statements.

SER NINOS. INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 356,717	\$	\$ 356,717
5750 Revenue from Curricular	<u>46,660</u>	<u> </u>	<u>46,660</u>
Total Local Support	<u>403,377</u>	<u> </u>	<u>403,377</u>
State Program Revenues			
5810 Foundation School Program Act Revenues		8,288,023	8,288,023
5820 State Program Revenues Distributed by Texas Education Agency	<u> </u>	<u>18,292</u>	<u>18,292</u>
Total State Program Revenues	<u> </u>	<u>8,306,315</u>	<u>8,306,315</u>
Federal Program Revenues:			
5910 Federal Revenues Distributed Through Government Entities Other than State or Federal		25,853	25,853
5920 Federal Revenues Distributed by Texas Education Agency		1,549,307	1,549,307
5930 United States Department of Agriculture From the Federal Government	<u> </u>	<u>15,987</u>	<u>15,987</u>
Total Federal Program Revenues	<u> </u>	<u>1,591,147</u>	<u>1,591,147</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>9,527,548</u>	<u>(9,527,548)</u>	<u>-</u>
Total Revenues	<u>9,930,925</u>	<u>369,914</u>	<u>10,300,839</u>
EXPENSES			
11 Instruction	5,202,562		5,202,562
12 Instructional Resources and Media Services	27,869		27,869
13 Curriculum Development and Instructional Staff Development	48,185		48,185
23 School Leadership	431,421		431,421
31 Guidance, Counseling, and Evaluation Services	8,856		8,856
33 Health Services	103,215		103,215
35 Food Service	677,414		677,414
36 Cocurricular/Extracurricular Activities	7,404		7,404
41 General Administration	369,868		369,868
51 Facilities Maintenance and Operations	1,662,688		1,662,688
52 Security and Monitoring Services	186,568		186,568
53 Data Processing Services	70,373		70,373
61 Community Services	57,985		57,985
71 Debt Services	700,955		700,955
81 Fund Raising	11,545		11,545
Total Expenses	<u>9,566,908</u>	<u> </u>	<u>9,566,908</u>
Change in Net Assets	<u>364,017</u>	<u>369,914</u>	<u>733,931</u>
Net Assets, Beginning of Year	<u>3,910,970</u>	<u>5,324,173</u>	<u>9,235,143</u>
Net Assets, End of Year	<u>\$ 4,274,987</u>	<u>\$ 5,694,087</u>	<u>\$ 9,969,074</u>

See accompanying notes to financial statements.

SER NINOS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2015

Cash Flows From Operating Activities	
Change in Net Assets	\$ 733,931
Adjustments to Reconcile Change in Net Assets to Net	
Cash provided (used) by Operating Activities:	
Depreciation	598,453
Amortization	18,399
(Increase) decrease in Other Receivable	(72,639)
(Increase) decrease in Grants Receivable	(190,739)
Increase (decrease) in Accounts Payable	(63,988)
Increase (decrease) in Interest Payable	1,010
Increase (decrease) in Accrued Liabilities	128,827
Increase (decrease) in Wages Payable	<u>14,782</u>
 Total Adjustments	 <u>434,105</u>
 Net Cash Provided (Used) by Operating Activities	 <u>1,168,036</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(156,290)</u>
Net Cash Provided (Used) by Investing Activities	<u>(156,290)</u>
Cash Flows From Financing Activities	
Repayment of Long-Term Debt	(216,614)
Repayment of Bonds	<u>(260,000)</u>
Net Cash Provided (Used) by Financing Activities	<u>(476,614)</u>
 NET INCREASE (DECREASE) IN CASH	 <u>535,132</u>
CASH AT BEGINNING OF YEAR	<u>3,397,616</u>
CASH AT END OF YEAR	<u><u>\$ 3,932,748</u></u>
 <u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u><u>\$ 700,955</u></u>

See accompanying notes to financial statements.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

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 was formed to provide elementary education to approximately 1,039 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, 2015

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, 2015

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 Obligations:

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 employer defined benefit pension plan with one exception; all risks and costs are not shared by the 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, 2015

C. Pension Plan Obligations: (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 form 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.

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 6.7% for fiscal year 2015. The state’s contribution rate as a non-employer contributing entity was 6.8% for fiscal year 2015. The charter school’s employee contributions to the system for the year ended August 31, 2015 were \$316,959 equal to the required contributions for the year.

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 \$39,788 for the year ending August 31, 2015. The charter school’s contributions into this plan do not represent more than 5% of the total contributions to the plan. The charter school’s participation in the TRS plan for the year ended August 31, 2015 is outlined in the table below:

Pension Fund	Total Plan Assets 2015	ABO 2015	Percent Funded	Surcharge Imposed
TRS	\$ 157,261,707,241	\$ 159,496,075,886	83.25%	No

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

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>	
2016	\$ 43,375
2017	31,616
2018	18,405
2019	<u>5,321</u>
Total	<u>\$ 98,717</u>

Operating lease expense amounted to \$64,864 for the twelve months ended August 31, 2015.

F. Health Care Coverage:

During the year ended August 31, 2015, employees of the organization were covered by a Health Insurance Plan (the Plan). The organization contributed \$297 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, 2015

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, building, and a certificate of deposit with a minimum balance of \$ 250, 000. Date of maturity is December 7, 2020.	<u>\$ 5,203,215</u>
Total Notes Payable	5,203,215
Less Current Portion of Notes Payable	<u>(227,331)</u>
Long-term Portion of Notes Payable	<u>\$ 4,975,884</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>
2016	\$ 227,331	\$ 224,352	\$ 451,683
2017	237,538	214,145	451,683
2018	248,203	203,480	451,683
2019	259,347	192,336	451,683
2020	270,991	180,692	451,683
Thereafter	3,959,805	57,553	4,017,358
Total	<u>\$ 5,203,215</u>	<u>\$ 1,072,558</u>	<u>\$ 6,275,773</u>

I. Restricted Cash:

Restricted cash at August 31, 2015 consisted of debt service and debt service reserve fund bond cash accounts. These funds are to be solely used in the repayment of bond liabilities and cannot be used for normal operating expenditures.

J. Bonds Payable:

SER-Ninos, Inc. has secured bond financing pursuant to Chapter 53 of the Texas Education Code, \$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.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

J. Bonds Payable: (Continued)

Bonds payable at August 31, 2015 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.	<u>4,690,000</u>
Total	\$ 8,705,000
Less current portion of bonds payable	(305,000)
Less unamortized discount	(25,888)
Long-term portion of bonds payable net of discount	<u>\$ 8,374,112</u>

Future maturities of long-term debt at August 31, 2015 are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 305,000	\$ 451,950	\$ 756,950
2016	310,000	438,225	748,225
2017	310,000	424,275	734,275
2018	310,000	410,375	720,325
2019	310,000	396,375	706,375
Thereafter	<u>7,160,000</u>	<u>4,771,500</u>	<u>11,931,500</u>
Total	<u>\$ 8,705,000</u>	<u>\$ 6,892,650</u>	<u>\$ 15,597,650</u>

SER-Ninos, Inc. must maintain a debt service fund which is required to maintain a minimum balance of \$510,900. At August 31, 2015, the debt service fund had a balance of \$511,070.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2015

K. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2015, are available for the following periods:

Periods after August 31, 2015	
State TEA funds	\$ 5,338,405
Capital Campaign funds	<u>355,682</u>
Total restricted funds	<u>\$ 5,694,087</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	\$ 7,936,401
Federal Funds	<u>1,591,147</u>
Total restrictions released	<u>\$ 9,527,548</u>

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

SER Ninos, Inc. Houston Special Education Cooperative received \$447,493 and \$941 in IDEA-B Formula and IDEA-B Preschool funds respectively for the year ended August 31, 2015. 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, 2015:

<u>Member/ Entity</u>	<u>Revenue</u>	<u>Expense</u>
Alief Montessori	\$58,322	\$58,322
GIS Houston	110,349	110,349
Heights Charter	47,152	47,152
U of H Charter	29,956	29,956
SER Ninos	120,479	120,479
Two Dimensions Charter	81,235	81,235
Total IDEA-B Formula Funds	<u>\$447,493</u>	<u>\$447,493</u>

<u>Member/ Entity</u>	<u>Revenue</u>	<u>Expense</u>
Alief Montessori	\$941	\$941
Total IDEA-B Preschool Funds	<u>\$941</u>	<u>\$941</u>

Total IDEA-B Federal Funds	<u>\$448,434</u>	<u>\$448,434</u>
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M. Evaluation of Subsequent Events:

SER Ninos, Inc. has evaluated subsequent events through December 17, 2015, 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, 2015, and our report thereon dated December 17, 2015, 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 are 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.



Houston, Texas
December 17, 2015

SER NINOS, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2015

Expenses	
6100 Payroll Costs	\$ 5,412,794
6200 Professional and Contracted Services	1,426,238
6300 Supplies and Materials	1,076,172
6400 Other Operating Costs	932,351
6500 Debt	719,353
Total Expenses	<u>\$ 9,566,908</u>

See accompanying notes to financial statements.

SER NINOS, INC.
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2015

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 3,932,748	\$
1510 Land and Improvements	1,521,471	1,949,472	
1520 Buildings and Improvements	19,015,014	204,396	
1539 Furniture and Equipment	31,953	332,595	
1580 Construction in Progress		164,154	
Total Property and Equipment	<u>\$ 20,568,438</u>	<u>\$ 6,583,365</u>	<u>\$</u>

See accompanying notes to financial statements.

SER NINOS, INC.

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2015

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 10,400	\$ 10,400	\$ 356,717	\$ 346,317
5750 Food Service Sales	22,000	28,000	46,660	18,660
Total Local Support	<u>32,400</u>	<u>38,400</u>	<u>403,377</u>	<u>364,977</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	8,432,000	8,432,000	8,288,023	(143,977)
5820 State Program Revenues Distributed by Texas Education Agency	3,200	4,138	18,292	14,154
Total State Program Revenues	<u>8,435,200</u>	<u>8,436,138</u>	<u>8,306,315</u>	<u>(129,823)</u>
Federal Program Revenues:				
5910 Federal Revenues Distributed Through Government Entities Other than State or Federal		25,853	25,853	
5920 Federal Revenues Distributed by Texas Education Agency	1,609,546	1,609,546	1,549,307	(60,239)
5930 Federal Revenues Distributed by From the Federal Government		15,987	15,987	
Total Federal Program Revenues	<u>1,609,546</u>	<u>1,651,386</u>	<u>1,591,147</u>	<u>(60,239)</u>
Total Revenues	<u>10,077,146</u>	<u>10,125,924</u>	<u>10,300,839</u>	<u>174,915</u>
EXPENSES				
11 Instruction	5,272,902	5,272,902	5,202,562	70,340
12 Instructional Resources and Media Services	81,200	81,200	27,869	53,331
13 Curriculum Development and Instructional Staff Development	49,100	42,100	48,185	(6,085)
23 School Leadership	449,400	449,400	431,421	17,979
31 Guidance, Counseling, and Evaluation Services	12,000	9,000	8,856	144
33 Health Services	95,000	95,000	103,215	(8,215)
35 Food Service	567,935	590,859	677,414	(86,555)
36 Cocurricular/Extracurricular Activities	5,250	7,720	7,404	316
41 General Administration	398,459	351,559	369,868	(18,309)
51 Facilities Maintenance and Operations	1,128,600	1,128,600	1,662,688	(534,088)
52 Security and Monitoring Services	190,295	190,295	186,568	3,728
53 Data Processing Services	56,400	67,000	70,373	(3,373)
61 Community Services	60,500	54,000	57,985	(3,985)
71 Debt Services	508,300	508,300	700,955	(192,655)
81 Fund Raising	76,550	76,550	11,545	65,005
Total Expenses	<u>8,951,891</u>	<u>8,924,485</u>	<u>9,566,908</u>	<u>(642,423)</u>
Change in Net Assets	1,125,255	1,201,439	733,931	(467,508)
Net Assets, Beginning of Year	<u>9,235,143</u>	<u>9,235,143</u>	<u>9,235,143</u>	
Net Assets, End of Year	<u>\$10,360,398</u>	<u>\$10,436,582</u>	<u>\$9,969,074</u>	<u>\$ (467,508)</u>

See accompanying notes to financial statements.

SER-NINOS, INC.

BUDGETARY VARIANCE EXPLANATION

FOR THE YEAR ENDED AUGUST 31, 2015

MATERIAL BUDGET VARIANCE REVENUE

(1) 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, 2015.

- Object 5740- The amount of the variance includes an increase of revenue for IRS subsidy, Special Education Co-Op and E-rate reimbursement
- Object 5750- The amount of the variance is due to increased revenue realized from the local food service program due to increased enrollment.
- Object 5820- The amount of the variance includes increase in revenue realized for PK.
- Object 5910- The amount of the variance includes increase in revenue from the Fresh Fruit Program.

SER-NINOS, INC.

BUDGETARY VARIANCE EXPLANATION

FOR THE YEAR ENDED AUGUST 31, 2015

MATERIAL BUDGET VARIANCE EXPENDITURES

(1) The following is an explanation of the 10% variances from final budget to actual expenses reported on the Budgetary Comparison Schedule for the year ending August 31, 2015.

Function 12 – The amount of the variance includes budgeted library supplies that were not purchased.

Function 13 – The amount of the variance includes increase in staff development expense.

Function 35 – The amount of the variance includes increase food cost due to increase in student enrollment.

Function 51 – The amount of the variance includes depreciation costs.

Function 71 – The amount of the variance includes under estimated costs for interest expense.

Function 81 – The amount of the variance includes a budgeted position for a director of development and fundraising that was not hired.

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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, 2015, 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 17, 2015.

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 the Organization'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. 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 "Gomez & Company". The signature is written in black ink and is positioned above the typed text.

Houston, TX
December 17, 2015

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 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, 2015.

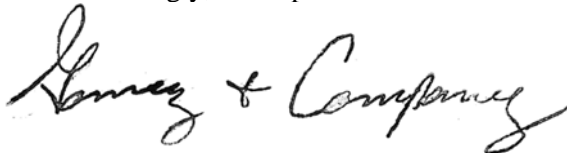
Report on Internal Control Over Compliance

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Loney & Company", is written over the printed name of the firm.

Houston, TX
December 17, 2015

SER-NINOS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2015

Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements.
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 programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510 (a) of OMB A-133
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. A \$300,000 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.
9. SER-Ninos, Inc. qualifies as a low-risk auditee.

<u>Current Year Findings</u>	<u>Questioned Costs</u>
No audit findings were noted as per governmental auditing standards and Section .510(a) of OMB A-133.	\$ -0-

* Denotes cluster

SER-NINOS, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2015

No audit findings were noted as per section .300 (f) of OMB A-133 for the year ended August 31, 2014.

\$ -0-

SER NINOS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2015

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed - Through Texas Education Agency:			
ESEA, Title I, Part A	84.010A	15610101101802	\$ 672,296
ESEA, Title II, Part A Teacher and Principal	84.367A	15694501101802	56,965
ESEA, Title III, Part A - LEP	84.365A	15671001101802	95,667
ESEA, Title III, LEP Summer School	84.369A	69551402	9,959
IDEA-B, Formula	84.027A	156600011018026000	<u>120,479</u>
Total U.S. Department of Education			<u>955,366</u>
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
Breakfast	10.553	71401401	9,643
Breakfast	10.553	71401501	74,830
Lunch	10.555	71301401	49,427
Lunch	10.555	71301501	<u>418,833</u>
			<u>552,733</u>
Passed - Through Texas Department of Agriculture			
NSLP Equipment Assistance Grants	10.579		15,987
USDA Commodity Food Distribution	10.555	101201A	<u>41,208</u>
			<u>57,195</u>
Passed - Through Texas Department of Human Services			
Fresh Fruit & Vegetable Program	10.582		<u>25,853</u>
			<u>25,853</u>
Total U.S. Department of Agriculture			<u>635,781</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,591,147</u></u>

SER-NINOS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes federal grant activity of SER-Ninos, Inc. (SER, Inc.) under programs of the federal government for the year ended August 31, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.