

**SER-NINOS, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED AUGUST 31, 2014**

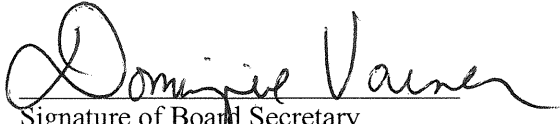
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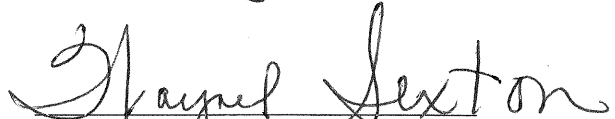
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SER-NINOS, INC.  
(Federal Employer Identification Number 76-0511534)  
101-802

CERTIFICATION OF BOARD  
August 31, 2014

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, 2014, at a meeting of the governing body of said charter school on the 20th day of January, 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, 2014, 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, 2014, 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.

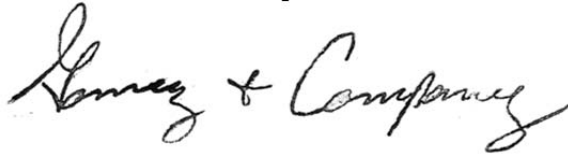
***Other Matters***

***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 January 16, 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 that reads "Honey & Company". The signature is written in black ink and is positioned above the typed name and date.

Houston, TX  
January 16, 2015

SER NINOS, INC.  
STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2014

ASSETS

Current Assets:

Cash	\$ 2,857,881
Restricted Cash	539,735
Grants Receivable	248,934
Other Receivables	<u>620</u>
Total Current Assets	<u>3,647,170</u>

Property & Equipment

Land	3,470,943
Buildings	19,219,410
Construction in Progress	23,851
Equipment and Furniture	<u>348,562</u>
	23,062,766
Less: Accumulated Depreciation	<u>(3,068,623)</u>
	<u>19,994,143</u>

Other Assets

Bond Issuance Cost	<u>404,940</u>
Total Assets	<u><u>\$ 24,046,253</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 221,318
Accrued Liabilities	34,593
Wages Payable	177,990
Interest Payable	19,277
Current Portion of Notes Payable	217,652
Current Portion of Bonds Payable	<u>230,000</u>
Total Current Liabilities	<u>900,830</u>

Long-term Liabilities:

Notes Payable Net of Current Portion	5,202,177
Bonds Payable Net of Discount and Current Portion	<u>8,708,103</u>
Total Liabilities	<u>14,811,110</u>

Net Assets:

Unrestricted	3,910,970
Temporarily Restricted	<u>5,324,173</u>
Total Net Assets	<u>9,235,143</u>
Total Liabilities and Net Assets	<u><u>\$ 24,046,253</u></u>

See accompanying notes to financial statements.

## SER NINOS. INC.

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 282,986	\$	\$ 282,986
5750 Revenue from Curricular	<u>34,322</u>	<u></u>	<u>34,322</u>
Total Local Support	<u>317,308</u>	<u></u>	<u>317,308</u>
State Program Revenues			
5810 Foundation School Program Act Revenues		7,830,766	7,830,766
5820 State Program Revenues Distributed by Texas Education Agency	<u></u>	<u>18,276</u>	<u>18,276</u>
Total State Program Revenues	<u></u>	<u>7,849,042</u>	<u>7,849,042</u>
Federal Program Revenues:			
5910 Federal Revenues Distributed Through Government Entities Other than State or Federa		15,608	15,608
5920 Federal Revenues Distributed by Texas Education Agency		1,246,835	1,246,835
5930 United States Department of Agriculture Donated Commodities	<u></u>	<u>43,272</u>	<u>43,272</u>
Total Federal Program Revenues	<u></u>	<u>1,305,715</u>	<u>1,305,715</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>8,767,543</u>	<u>(8,767,543)</u>	<u>-</u>
Total Revenues	<u>9,084,851</u>	<u>387,214</u>	<u>9,472,065</u>
<b>EXPENSES</b>			
11 Instruction	4,472,849		4,472,849
12 Instructional Resources and Media Services	3,061		3,061
13 Curriculum Development and Instructional Staff Development	35,155		35,155
23 School Leadership	440,445		440,445
31 Guidance, Counseling, and Evaluation Services	13,791		13,791
33 Health Services	103,821		103,821
35 Food Service	672,411		672,411
36 Cocurricular/Extracurricular Activities	12,142		12,142
41 General Administration	357,413		357,413
51 Plant Maintenance and Operations	1,696,548		1,696,548
52 Security and Monitoring Services	169,967		169,967
53 Data Processing Services	65,430		65,430
61 Community Services	28,452		28,452
71 Debt Services	746,368		746,368
81 Fund Raising	6,001		6,001
Total Expenses	<u>8,823,854</u>	<u></u>	<u>8,823,854</u>
Change in Net Assets	<u>260,997</u>	<u>387,214</u>	<u>648,211</u>
Net Assets, Beginning of Year	<u>3,649,973</u>	<u>4,936,959</u>	<u>8,586,932</u>
Net Assets, End of Year	<u>\$ 3,910,970</u>	<u>\$ 5,324,173</u>	<u>\$ 9,235,143</u>

See accompanying notes to financial statements.

SER NINOS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2014

Cash Flows From Operating Activities	
Change in Net Assets	\$ 648,211
Adjustments to Reconcile Change in Net Assets to Net	
Cash provided (used) by Operating Activities:	
Depreciation	598,740
Amortization	18,399
(Increase) decrease in Other Receivable	36,812
(Increase) decrease in Grants Receivable	(56,922)
Increase (decrease) in Accounts Payable	94,287
Increase (decrease) in Interest Payable	(406)
Increase (decrease) in Accrued Liabilities	29,007
Increase (decrease) in Wages Payable	<u>15,699</u>
 Total Adjustments	 <u>735,616</u>
 Net Cash Provided (Used) by Operating Activities	 <u>1,383,827</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(6,500)</u>
 Net Cash Provided (Used) by Investing Activities	 <u>(6,500)</u>
Cash Flows From Financing Activities	
Repayment of Long-Term Debt	(1,307,527)
Repayment of Bonds	<u>(250,000)</u>
 Net Cash Provided (Used) by Financing Activities	 <u>(1,557,527)</u>
 NET INCREASE ( DECREASE ) IN CASH	 <u>(180,200)</u>
CASH AT BEGINNING OF YEAR	<u>3,577,816</u>
CASH AT END OF YEAR	<u>\$ 3,397,616</u>
 <u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 746,368</u>

See accompanying notes to financial statements.



SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

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 954 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, 2014

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, 2014

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:

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 retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It 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

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

C. Pension Plan: (continued)

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

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 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% and a state contribution rate of 6.8% for fiscal year 2014. The charter school's employee contributions to the system for the years ending August 31, 2014 were \$269,540 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 for the year ending August 31, 2014 was \$29,689.

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>	
2015	\$ 39,946
2016	17,638
2017	<u>5,879</u>
Total	<u>\$ 63,463</u>

Operating lease expense amounted to \$58,427 for the twelve months ended August 31, 2014.

F. Health Care Coverage:

During the year ended August 31, 2014, employees of the organization were covered by a Health Insurance Plan (the Plan). The organization contributed \$283 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.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

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.

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.	\$ 5,419,829
Total Notes Payable	5,419,829
Less Current Portion of Notes Payable	(217,652)
Long-term Portion of Notes Payable	<u>\$ 5,202,177</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>
2015	\$ 217,652	\$ 234,031	\$ 451,683
2016	227,424	224,259	451,683
2017	237,635	214,048	451,683
2018	248,305	203,378	451,683
2019	259,453	192,230	451,683
Thereafter	4,229,360	238,096	4,467,456
Total	<u>\$ 5,419,829</u>	<u>\$ 1,306,042</u>	<u>\$ 6,725,871</u>

I. Restricted Cash:

Restricted cash at August 31, 2014 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.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

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.

Bonds payable at August 31, 2014 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.	\$ 4,115,000
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>4,850,000</u>
Total	\$ 8,965,000
Less current portion of bonds payable	(230,000)
Less unamortized discount	<u>(26,897)</u>
Long-term portion of bonds payable net of discount	<u>\$ 8,708,103</u>

Future maturities of long-term debt at August 31, 2014 are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 260,000	\$ 462,650	\$ 722,650
2016	305,000	451,950	756,950
2017	310,000	438,225	748,225
2018	310,000	424,275	734,275
2019	310,000	410,325	720,325
Thereafter	<u>7,470,000</u>	<u>5,167,875</u>	<u>12,637,875</u>
Total	<u>\$ 8,965,000</u>	<u>\$ 7,355,300</u>	<u>\$ 16,320,300</u>

SER-Ninos, Inc. must maintain a debt service fund which is required to maintain a minimum balance of \$510,900. At August 31, 2014, the debt service fund had a balance of \$511,015.

SER-NINOS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

K. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2014, are available for the following periods:

Periods after August 31, 2014	
State TEA funds	\$ 4,966,885
Capital Campaign funds	<u>357,288</u>
Total restricted funds	<u>\$ 5,324,173</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	\$ 7,461,828
Federal Funds	<u>1,305,715</u>
Total restrictions released	<u>\$ 8,767,543</u>

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

SER Ninos, Inc. Houston Special Education Cooperative received \$479,304 and \$370 in IDEA-B Formula and IDEA-B Preschool funds respectively for the year ended August 31, 2014. 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, 2014:

<u>Member/ Entity</u>	<u>Revenue</u>	<u>Expense</u>
Alief Montessori	\$57,852	\$57,852
GIS Houston	124,765	124,765
Heights Charter	37,992	37,992
U of H Charter	26,109	26,109
SER Ninos	155,933	155,933
Two Dimensions Charter	76,653	76,653
Total IDEA-B Formula Funds	<u>\$479,304</u>	<u>\$479,304</u>

<u>Member/ Entity</u>	<u>Revenue</u>	<u>Expense</u>
Alief Montessori	\$370	\$370
Total IDEA-B Preschool Funds	<u>\$370</u>	<u>\$370</u>

Total IDEA-B Federal Funds	<u>\$479,674</u>	<u>\$479,674</u>
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M. Evaluation of Subsequent Events:

SER Ninos, Inc. has evaluated subsequent events through January 16, 2015, the date which the financial statements were available to be issued.

**GOMEZ & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
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**INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL 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, 2014, and have issued our report thereon dated January 16, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The schedules for individual charter school are presented for the 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  
January 16, 2015



SER NINOS, INC.  
SCHEDULE OF EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2014

<b>Expenses</b>	
6100 Payroll Costs	\$ 4,776,187
6200 Professional and Contracted Services	1,892,750
6300 Supplies and Materials	499,512
6400 Other Operating Costs	890,638
6500 Debt	764,767
Total Expenses	<u>\$ 8,823,854</u>

See accompanying notes to financial statements.

SER NINOS, INC.  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED AUGUST 31, 2014

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 3,397,616	\$
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	316,609	
1580 Construction in Progress		23,851	
Total Property and Equipment	<u>\$ 20,568,438</u>	<u>\$ 5,891,944</u>	<u>\$</u>

See accompanying notes to financial statements.

SER NINOS, INC.

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$	\$	\$ 282,986	\$ 282,986
5750 Food Service Sales	8,000	8,000	34,322	26,322
Total Local Support	8,000	8,000	317,308	309,308
State Program Revenues:				
5810 Foundation School Program Act Revenues	7,809,150	7,809,150	7,830,766	21,616
5820 State Program Revenues Distributed by Texas Education Agency	3,200	3,200	18,276	15,076
Total State Program Revenues	7,812,350	7,812,350	7,849,042	36,692
Federal Program Revenues:				
5910 Federal Revenues Distributed Through Government Entities Other than State or Federal			15,608	15,608
5920 Federal Revenues Distributed by Texas Education Agency	1,244,866	1,244,866	1,246,835	1,969
5930 Federal Revenues Distributed by Other State of Texas Government Agencies	30,000	30,000	43,272	13,272
Total Federal Program Revenues	1,274,866	1,274,866	1,305,715	30,849
Total Revenues	9,095,216	9,095,216	9,472,065	376,849
<b>EXPENSES</b>				
11 Instruction	4,115,000	4,115,000	4,472,849	(357,849)
12 Instructional Resources and Media Services	80,000	80,000	3,061	76,939
13 Curriculum Development and Instructional Staff Development	10,000	10,000	35,155	(25,155)
23 School Leadership	428,000	428,000	440,445	(12,445)
31 Guidance, Counseling, and Evaluation Services	3,000	3,000	13,791	(10,791)
33 Health Services	95,000	95,000	103,821	(8,821)
35 Food Service	567,935	567,935	672,411	(104,476)
36 Cocurricular/Extracurricular Activities	5,000	5,000	12,142	(7,142)
41 General Administration	360,000	360,000	357,413	2,587
51 Plant Maintenance and Operations	1,052,000	1,052,000	1,696,548	(644,548)
52 Security and Monitoring Services	173,615	173,615	169,967	3,648
53 Data Processing Services	52,000	52,000	65,430	(13,430)
61 Community Services	10,000	10,000	28,452	(18,452)
71 Debt Services	555,300	555,300	746,368	(191,068)
81 Fund Raising	69,000	69,000	6,001	62,999
Total Expenses	7,575,850	7,575,850	8,823,854	(1,248,004)
Change in Net Assets	1,519,366	1,519,366	648,211	(871,155)
Net Assets, Beginning of Year	8,586,932	8,586,932	8,586,932	
Net Assets, End of Year	<u>\$10,106,298</u>	<u>\$10,106,298</u>	<u>\$9,235,143</u>	<u>\$ (871,155)</u>

See accompanying notes to financial statements.

SER-NINOS, INC.

BUDGETARY VARIANCE EXPLANATION

FOR THE YEAR ENDED AUGUST 31, 2014

**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, 2014.**

- Object 5740- The amount of the variance includes an increase of revenue for 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 and the lunch program.
- Object 5910- The amount of the variance includes increase in revenue from the Fresh Fruit Program.
- Object 5920- The amount of the variance includes increase in revenue from the Federal Breakfast and Lunch program due to increase in student enrollment (commodities).

SER-NINOS, INC.

BUDGETARY VARIANCE EXPLANATION

FOR THE YEAR ENDED AUGUST 31, 2014

**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, 2014.**

- Function 12 – The amount of the variance includes budgeted library supplies that were not purchased.
- Function 13 – The amount of the variance includes accrued staff development.
- Function 31 – The amount of the variance includes funds budgeted to provide professional services of Special Education.
- Function 35 – The amount of the variance includes increase food cost due to increase in student enrollment.
- Function 36 – The amount of the variance includes an increase in expenses for student competition, uniforms and travel.
- Function 51 – The amount of the variance includes depreciation costs.
- Function 53 – The amount of the variance includes funds for accounts payable clerk.
- Function 61 – The amount of the variance includes increase in parent center expenses.
- 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, 2014, 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 January 16, 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 "Ramirez & Company". The signature is written in black ink and is positioned above the typed text.

Houston, TX  
January 16, 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, 2014. 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, 2014.



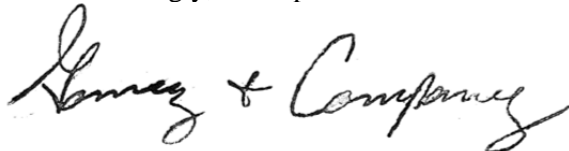
## Report on Internal Control Over Compliance

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.



Houston, TX  
January 16, 2015

SER-NINOS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2014

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  
Title I, Part A

CFDA Number 84.010A

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, 2014

No audit findings were noted as per section .300 (f) of OMB A-133 for the year ended August 31, 2013.

\$ -0-

SER NINOS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2014

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	14610101101802	\$ 379,898
ESEA, Title II, Part A Teacher and Principal	84.367A	14694501101802	61,704
ESEA, Title III, Part A - LEP	84.365A	14671001101802	89,174
ESEA, Title III, LEP Summer School	84.369A	69551202	6,947
IDEA-B, Formula	84.027A	146600011018026000	<u>155,933</u>
Total U.S. Department of Education			<u>693,656</u>
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
Breakfast	10.553	71401301	10,815
Breakfast	10.553	71401401	81,248
Lunch	10.555	71301301	48,867
Lunch	10.555	71301401	<u>412,249</u>
			553,180
Passed - Through Texas Department of Human Services			
USDA Commodity Food Distribution	10.565	101201A	43,272
Fresh Fruit & Vegetable Program	10.582		<u>15,608</u>
			58,880
Total U.S. Department of Agriculture			<u>612,060</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,305,715</u></u>

SER-NINOS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2014

**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, 2014. 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.