

**WEST HOUSTON CHARTER ALLIANCE, INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Annual Financial and Compliance Audit**  
**For the Year Ended**  
**August 31, 2012**

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**AUGUST 31, 2012**

**TABLE OF CONTENTS**

	<u>Page Number</u>
<b>CERTIFICATE OF BOARD</b>	i
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
<b>SUPPLEMENTARY INFORMATION</b>	
Statement of Activities – By Function	16
Schedule of Expenses	17
Schedule of Capital Assets	18
Budgetary Comparison Schedule	19
<b>COMPLIANCE AND INTERNAL CONTROL</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
Schedule of Findings and Questioned Costs	22
Summary Schedule of Prior Audit Findings and Current Status	24

**CERTIFICATE OF BOARD**

WEST HOUSTON CHARTER ALLIANCE INC.

Name of Charter Holder

ARISTOI CLASSICAL ACADEMY

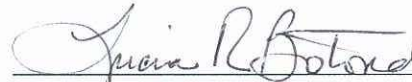
Name of Charter School

76-0495959

Federal Employer Identification Number

We, the undersigned, certify that the attached Financial and Compliance Report of the above named charter holder was reviewed and (check one)  approved  disapproved for the year ended August 31, 2012, at a meeting of the governing body of the charter holder on the 11<sup>th</sup> day of January, 2013.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
West Houston Charter Alliance, Inc.  
dba Aristoi Classical Academy

We have audited the accompanying statement of financial position of West Houston Charter Alliance, Inc. dba Aristoi Classical Academy (the "Academy"), a Texas nonprofit organization, as of August 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of August 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2013, on our consideration of the Academy'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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 16 through 19 is presented for purposes of additional analysis as required by the Texas Education Agency, 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.

*McConnell & Jones LLP*

Houston, Texas  
January 11, 2013

**WEST HOUSTON CHARTER ALLIANCE INC.**  
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(A Texas Nonprofit Organization)

**Statement of Financial Position**

**August 31, 2012**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 529,019
Due from Texas Education Agency	95,154
Other receivables	5,466
Bond issuance costs	<u>12,549</u>
Total current assets	<u>642,188</u>

**NONCURRENT ASSETS**

Bond issuance costs	233,204
Property and equipment, net	<u>1,544,444</u>
Total noncurrent assets	<u>1,777,648</u>

**TOTAL ASSETS** \$ 2,419,836

**LIABILITIES AND NET ASSETS/(DEFICIT)**

**CURRENT LIABILITIES**

Accounts payable	\$ 6,055
Accrued salaries and related liabilities	50,891
Accrued interest payable	<u>110,597</u>
Total current liabilities	<u>167,543</u>

**LONG-TERM LIABILITIES**

Bonds payable	<u>2,830,000</u>
Total long-term liabilities	<u>2,830,000</u>

**TOTAL LIABILITIES** \$ 2,997,543

**NET ASSETS/(DEFICIT)**

Temporarily restricted	189,148
Unrestricted	<u>(766,855)</u>
Total net deficit	<u>(577,707)</u>

**TOTAL LIABILITIES AND NET ASSETS/(DEFICIT)** \$ 2,419,836

*See accompanying notes to the financial statements.*

**WEST HOUSTON CHARTER ALLIANCE INC.**  
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(A Texas Nonprofit Organization)

**Statement of Activities**

**Year Ended August 31, 2012**

	Unrestricted	Temporarily Restricted	Totals
<b>REVENUES</b>			
Local support:			
Earnings from temporary deposits and investments	\$ 44	\$ -	\$ 44
Gifts and bequests	17,576	-	17,576
Other revenues from local sources	50,736	-	50,736
Enterprising services revenue	27,768	-	27,768
Total local support	96,124	-	96,124
State program revenues:			
Foundation school program	-	2,191,337	2,191,337
Other state aid	-	17,107	17,107
Total state program revenues	-	2,208,444	2,208,444
Federal program revenues:			
ESEA Title I, Part A, Improvement Basic	-	30,187	30,187
ESEA Title II, Part A, Teacher, Principal Training	-	12,952	12,952
ARRA Title XIV, State Fiscal Stabilization	-	29,184	29,184
National School Breakfast and Lunch	-	31,908	31,908
Education Jobs Fund	-	54,202	54,202
IDEA Part B, Formula	-	58,292	58,292
IDEA Part B, Pre-School	-	1,210	1,210
Total federal program revenues	-	217,935	217,935
Net assets released from restrictions:			
Satisfaction of program restrictions	2,237,231	(2,237,231)	-
Total revenues	2,333,355	189,148	2,522,503
<b>EXPENSES</b>			
Program services:			
Instruction and instructional related services	1,184,177	-	1,184,177
Instructional and school leadership	148,757	-	148,757
Total program services	1,332,943	-	1,332,943
Support services:			
Administrative support services	244,464	-	244,464
Support services – student	104,808	-	104,808
Support services – non-student based	311,298	-	311,298
Total support services	660,570	-	660,570
Debt service			
	243,727	-	243,727
Total expenses	2,237,231	-	2,237,231
Change in net assets	96,124	189,148	285,272
NET DEFICIT, BEGINNING OF YEAR	(862,979)	-	(862,979)
NET ASSETS/(DEFICIT), END OF YEAR	\$ (766,855)	\$ 189,148	\$ (577,707)

*See accompanying notes to the financial statements.*

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Statement of Cash Flows**

**Year Ended August 31, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Foundation school program	\$ 2,211,134
Federal grants	248,933
Miscellaneous sources	108,673
Payments to vendors for goods and services rendered	(1,002,635)
Payments to charter school personnel for services rendered	(1,404,926)
Net cash provided by operating activities	161,179

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of fixed assets	(5,000)
Net cash used in investing activities	(5,000)

**NET INCREASE IN CASH** 156,179

**CASH, BEGINNING OF YEAR** 372,840

**CASH, END OF YEAR** \$ 529,019

**RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Change in net assets	\$ 285,272
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	71,157
Amortization of bond issuance costs	12,549
Decrease in due from Texas Education Agency	33,689
Increase in accounts payable	1,470
Decrease in accrued salaries and related liabilities	(16,542)
Decrease in accrued interest payable	(221,193)
Decrease in due to Texas Education Agency	(5,223)
Total adjustments	(124,093)
Net cash provided by operating activities	\$ 161,179

*See accompanying notes to the financial statements.*



**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

West Houston Charter Alliance, Inc. (the “Charter Holder”) dba Aristoi Classical Academy (the “Charter School”) (collectively the “Academy”) is a not-for-profit organization incorporated in the State of Texas in 1996. The Charter Holder is governed by a Board of Directors comprised of seven members. The Board of Directors is elected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, appoint the Academy’s Superintendent, and significantly influences operations. The Board of Directors has primary accountability for the fiscal affairs of the Academy.

Since the Academy receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Charter Holder Operations

The Charter Holder operated only a single Charter School in fiscal year 2012 and did not conduct any other charter or non-charter activities.

Corporate Operations

The Charter School was organized to provide educational services to students in grades kindergarten through the 8<sup>th</sup> grade. The programs, services, activities and functions are governed by the Charter Holder’s Board of Directors. In 1996, the Texas State Board of Education granted the Charter Holder an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable contract for charter. The Charter School is part of the public school system of the State of Texas and is, therefore, entitled to distributions from the State’s available school fund. The Charter School does not have the authority to impose ad valorem taxes on its district or to charge tuition.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

Basis of Financial Statement Presentation

The Financial Accounting Standards Board (FASB) is the standards setting body that establishes accounting and financial reporting principles for not-for-profit organizations. The Academy's financial statements are presented in accordance with the FASB Accounting Standards Codification (ASC) Topic 958-205 *Not-For-Profit Entities, Presentation of Financial Statements*. Under FASB ASC Topic 958-205, the Academy is required to report information regarding its financial position and activities according to three classes of net assets:

**Unrestricted** – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Academy.

**Temporarily restricted** – These are resources that are subject to donor-imposed stipulations that may or will be met, either by actions of the Academy, and/or the passage of time.

**Permanently restricted** – These are resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon be used by the Academy.

In addition, the Academy is required by FASB ASC Topic 958-205 to present statements of activities and cash flows.

Revenue Recognition

Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on the passage of time. Program income and other income are recognized when received. Conditional promises to give cash or other assets are not recognized until received.

Contributions and Promises to Give

The Academy accounts for contributions in accordance with FASB ASC 958-605, *Not-For-Profit Entities, Revenue Recognition*. Contributions received are recorded as

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions and reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same fiscal year as received are presented as unrestricted contributions.

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

The Academy uses the allowances method to determine uncollectible unconditional promises to give. The allowance is based on management's analysis of specific promises made. There were no promises to give as of August 31, 2012.

Contributed Services

In accordance with FASB ASC 958-605, the Academy recognizes donated services as contributions in the financial statements if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, and are performed by people with those skills and would otherwise be purchased by the Academy. Donated services are recorded at their estimated values at the date of the donation.

Several individuals contributed their time and efforts to support the Academy throughout the year. No amount was recognized by the Academy for donated services in the financial statements for the year ended August 31, 2012 because such services did not meet the above criteria.

Cash and Cash Equivalents

For financial statement purposes, the Academy considers all monies in banks and highly liquid investment instruments with an original maturity of three months or less, from the date of purchase, to be cash equivalents. As of August 31, 2012, the Academy had no cash equivalents.

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

Property and Equipment

Property and equipment are recorded at cost or, if donated, at their estimated fair value at the date of donation. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Presently, the Academy does not have any assets which have donor-imposed restrictions.

The Academy's policy is to capitalize all expenditures for property and equipment in excess of \$5,000 per unit. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 30 years except for leasehold improvements which are amortized over the shorter of the useful life of the improvements or remaining lease term of the related leases. Maintenance and repairs are charged to expense when incurred. Major improvements and renewals are capitalized.

Income Taxes

The Academy is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code ("Code") and comparable State of Texas law. Accordingly, the Academy has not made any provision for federal income taxes in the accompanying financial statements. The Academy has also been classified as a publicly-supported organization which is not a private foundation under Section 509(a)(1) of the Code. Accordingly, contributions to the Academy are tax deductible within the limitations prescribed by the Code.

The Academy applies the provisions of FASB ASC Topic 740, *Income Taxes*, (formerly FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* – an Interpretation of FASB Statement No. 109), which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Academy has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the Academy's financial statements relate primarily to the useful lives applied in asset depreciation and functional allocation of expenses.

**2. CONCENTRATION OF CREDIT AND BUSINESS RISKS**

The Academy maintains cash balances with a local bank. As of August 31, 2012, cash balances at banks were insured by the Federal Deposit Insurance Corporation (FDIC). On November 9, 2010, the FDIC Board of Directors issued a final rule to implement section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions. The separate coverage for noninterest-bearing transaction accounts becomes effective on December 31, 2010, and terminates on December 31, 2012. After December 31, 2012 coverage will be limited up to \$250,000 per customer. As of August 31, 2012, bank balances for \$539,267 were entirely covered by federal depository insurance. Cash reported in the statement of financial position is different from the cash at banks due to outstanding checks and similar reconciling items.

The State of Texas provided 88% of the Academy's total revenues for the year ended August 31, 2012.

**3. PROPERTY AND EQUIPMENT**

Property and equipment at August 31, 2012 were as follows:

	<b>Amount</b>
Land	\$ 101,999
Building and leasehold improvements	2,160,374
Furniture and playground equipment	78,671
Computer and office equipment	38,280
Total property and equipment	<u>2,379,324</u>
Less accumulated depreciation	(834,880)
Property and equipment, net	<u>\$ 1,544,444</u>

Depreciation and amortization expense for the year ended August 31, 2012 was \$71,157.

The majority of property and equipment presented in the accompanying statement of financial position were purchased with State funds. Property and equipment acquired with public funds received by the Academy for operations constitute public property

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets on page 17.

**4. LONG-TERM DEBT**

In March 2002, the Charter Holder entered into a bond agreement with Danbury Higher Education Authority, Inc. (the "Authority") and secured bond financing pursuant to Chapter 53 of the Texas Education Code and issued a \$2,510,000 of "Qualified Tax Exempt" Education Revenue Bonds Series 2002A and "Taxable" Education Revenue Bond Series 2002B (collectively "Bonds") as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance</u>
Education Revenue Bond Series 2002A	6.500%	February 1, 2012	\$ 160,000
Education Revenue Bond Series 2002A	7.500%	February 1, 2022	670,000
Education Revenue Bond Series 2002A	7.750%	February 1, 2026	445,000
Education Revenue Bond Series 2002A	7.875%	February 1, 2032	1,235,000
			<u>2,510,000</u>
 Education Revenue Bond Series 2002B	 9.000%	 February 1, 2008	 <u>320,000</u>
 Total			 <u>\$ 2,830,000</u>

Proceeds from issuance of Bonds were used to construct a new facility in Katy, Texas. The Bonds are secured by a first lien on the land and buildings of the Charter Holder.

As of August 31, 2012, no principal payments have been made. The Academy has past due interest which was accrued prior to 2010. However, in March 2012, the Charter Holder entered into a forbearance agreement with the Bonds Trustee and the Authority who have agreed, for a limited time period, to not take any action or commence any proceedings with respect to the enforcement of any of their rights or remedies under the bond agreement. The agreement will remain effective until June 30, 2014 as long as the Charter Holder does not default for any other violations per the bond agreement and meets the required Debt Service Fund requirements under the forbearance agreement. Per the terms of the forbearance agreement, the Charter Holder was required to pay \$34,000 per month effective April 2012 through August 2012. For the remainder of the forbearance period, \$18,433 is required to be paid each month. All payments under the forbearance agreement are considered interest payments.

During fiscal year ended August 31, 2012, the Charter Holder met its payment obligations per the forbearance agreement. Total interest payments made to the Bonds Trustee during the fiscal year 2012 amounted to \$442,388. Total interest expense for the year ended August 31, 2012 amounted to \$221,193 which was fully paid in the current fiscal year. Interest payable as of August 31, 2012 amounted to \$110,597 which

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

represented previous year's past due interest that is covered under the forbearance agreement and is being paid per the agreed terms.

At August 31, 2012, debt service fund for Bonds had a cash balance of \$43,145 that was included in the cash balance in statement of financial position. Unamortized Bonds issuance cost amounted to \$245,753.

The following is a summary of the long-term liabilities of the Academy at August 31, 2012:

	<b>Beginning Balance September 1, 2011</b>	<b>Additions</b>	<b>Reduction</b>	<b>Ending Balance August 31, 2012</b>
Series 2002A	\$ 2,510,000	\$ —	\$ —	\$ 2,510,000
Series 2002B	320,000	—	—	320,000
	<b>\$ 2,830,000</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,830,000</b>
Long-term liabilities due in less than one year				\$ —
Long-term liabilities due in more than one year				\$ 2,830,000

Future principal maturities on long-term debt at August 31, 2012 are as follows:

<b>Year Ending August 31,</b>	<b>Amount</b>
2013	\$ —
2014	575,000
2015	55,000
2016	60,000
2017	65,000
2018 and thereafter	2,075,000
	<b>\$ 2,830,000</b>

**5. TEMPORARILY RESTRICTED NET ASSETS**

As required by House Bill 6, 77<sup>th</sup> Legislative Session, all Foundation School Program and other State Aid received after September 1, 2001 by the Academy is considered temporarily restricted funds to be held in trust by the Charter School for the benefit of the

**WEST HOUSTON CHARTER ALLIANCE INC.**  
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(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

students of the Charter School. As of August 31, 2012, the Academy had temporarily restricted net assets of \$189,148 that primarily represented unspent receipts from Foundation School Program.

**6. OPERATING LEASES**

The Academy leases portable modular classrooms under a certain non-cancellable operating lease that expire in August 2014. Additionally, the Academy leases other equipments for which it has entered into several non-cancellable operating leases with vendors for various durations.

The following is a schedule of future minimum lease payments, by year, on non-cancellable operating leases:

<b>Year ending August 31,</b>	<b>Amount</b>
2013	\$ 18,974
2014	18,974
2015	—
2016	—
2017	—
Total	<u>\$ 37,948</u>

Total rental expense for the year ended August 31, 2012 was \$24,877.

**7. PENSION PLAN OBLIGATIONS**

Plan Description

The Academy contributes to the Teacher Retirement System of Texas (the “TRS”), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the Academy, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in the Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas legislature. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by



**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications Heading.

Funding Policy

Under provisions in State law, TRS plan members are required to contribute 6.40% of their annual covered salary for retirement and the State of Texas contributes an amount equal to 6.00% of the covered payroll of the School's employees compensated with State funds for retirement. Accordingly, the Academy does not make contributions to the TRS for employees compensated with State funds. The Academy contributes 6.00% of the covered payroll of employees compensated with Federal funds for retirement. For the fiscal year ended August 31, 2012, the Academy's total contribution to TRS for retirement was \$16,632. For the fiscal year ended August 31, 2012, the Academy's employees contributed a total of approximately \$77,325 to TRS for retirement.

**8. HEALTH CARE COVERAGE**

During the year ended August 31, 2012, employees of the Academy were covered by the TRS-ActiveCare, a public self-funded health insurance plan (the "Plan") that operates under the authority of the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and the Texas Administrative Code, Title 34, Part 3, Chapter 41. The Academy contributed at least \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents.

**9. COMMITMENTS AND CONTINGENCIES**

The Academy receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency ("TEA") and is subject to audit and adjustment. In addition, expenses charged to federal and state programs are subject to audit and adjustment by the grantor agencies. The programs administered by the Academy have multiple compliance requirements, and should state or federal auditors discover areas of noncompliance, the Academy's funds may be subject to refund if so determined by TEA or the grantor agencies.

**10. SUBSEQUENT EVENTS**

In November 2012, the TEA-appointed Conservator for the Charter School was removed based on Conservator's assessment of the Charter School's continuing efforts to correct the financial issues identified in fiscal year 2010.

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Notes to the Financial Statements**

**Year Ended August 31, 2012**

In December 2012, the Charter School received approval from TEA for an expansion to increase the maximum enrollment from 325 to 410.

Management has evaluated subsequent events through January 11, 2013; the date financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

## SUPPLEMENTARY INFORMATION

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Statement of Activities – By Function**  
**Year Ended August 31, 2012**

		Unrestricted	Temporarily Restricted	Totals
<b>REVENUES</b>				
Local support:				
5742	Earning from temporary deposits and investments	\$ 44	\$ -	\$ 44
5744	Gifts and bequests	17,576	-	17,576
5749	Other revenues from local sources	50,736	-	50,736
5755	Enterprising services revenue	27,768	-	27,768
	Total local support	96,124	-	96,124
State program revenues:				
5812	Foundation school program	-	2,191,337	2,191,337
5829	Other state aid	-	17,107	17,107
	Total state program revenues	-	2,208,444	2,208,444
Federal program revenues:				
211	ESEA Title I, Part A, Improvement Basic	-	30,187	30,187
255	ESEA Title II, Part A, Teacher, Principal Training	-	12,952	12,952
266	ARRA Title XIV, State Fiscal Stabilization	-	29,184	29,184
224	IDEA Part B Formula	-	58,292	58,292
225	IDEA Part B Pre-School	-	1,210	1,210
240	National School Breakfast and Lunch	-	31,908	31,908
287	Education Job Fund	-	54,202	54,202
	Total federal program revenues	-	217,935	217,935
Net assets released from restrictions:				
	Satisfaction of program restrictions	2,237,231	(2,237,231)	-
	Total revenues	2,333,355	189,148	2,522,503
<b>EXPENSES</b>				
11	Instruction	1,119,380	-	1,119,380
12	Instruction resources and media services	26,252	-	26,252
13	Curriculum development and instructional staff development	38,545	-	38,545
21	Instructional leadership	-	-	-
23	School leadership	148,757	-	148,757
31	Guidance, counseling, and evaluation services	25,959	-	25,959
33	Health services	801	-	801
35	Food services	73,466	-	73,466
36	Co-curricular/extracurricular activities	4,582	-	4,582
41	General administration	244,464	-	244,464
51	Plant maintenance and operations	258,825	-	258,825
52	Security and monitoring services	10,464	-	10,464
53	Data processing services	42,009	-	42,009
71	Debt service	243,727	-	243,727
	Total expenses	2,237,231	-	2,237,231
	Change in net assets	96,124	189,148	285,272
	NET DEFICIT, BEGINNING OF YEAR	(862,979)	-	(862,979)
	NET ASSETS/(DEFICIT), END OF YEAR	\$ (766,855)	\$ 189,148	\$ (577,707)

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Schedule of Expenses**

**Year Ended August 31, 2012**

**Expenses**

6100	Payroll costs	\$ 1,388,384
6200	Professional and contracted services	309,902
6300	Supplies and materials	155,750
6400	Other operating costs	139,468
6500	Debt service	<u>243,727</u>
	Total expenses	<u>\$ 2,237,231</u>

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADAMY**  
(A Texas Nonprofit Organization)

**Schedule of Capital Assets**

**Year Ended August 31, 2012**

	<b>Ownership Interest</b>		
	Local	State	Federal
1510 Land	\$ —	\$ 101,999	\$ —
1520 Buildings and improvements	—	2,160,374	—
1539 Furniture and equipment	95,085	21,866	—
Total property and equipment at cost	\$ 95,085	\$ 2,284,239	\$ —

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**Budgetary Comparison Schedule**

**Year Ended August 31, 2012**

		Budgeted Amounts		Actual	Variance from
		Original	Final	Amounts	Final Budget
<b>Revenues</b>					
5700	Local and intermediate sources	\$ 57,000	\$ 92,000	\$ 96,124	\$ 4,124
5800	State program revenue	2,096,512	2,186,835	2,208,444	21,609
5900	Federal program revenues	228,487	236,247	217,935	(18,312)
	Total revenues	<u>2,381,999</u>	<u>2,515,082</u>	<u>2,522,503</u>	<u>7,421</u>
<b>Expenses</b>					
11	Instruction	1,185,359	1,145,359	1,119,380	(25,979)
12	Instruction resources and media services	26,747	26,747	26,252	(495)
13	Curriculum development and instructional staff development	42,500	38,250	38,545	295
21	Instructional leadership	-	-	-	-
23	School leadership	140,833	154,916	148,757	(6,159)
31	Guidance, counseling, and evaluation services	30,000	30,000	25,959	(4,041)
33	Health services	800	800	801	1
35	Food services	76,346	76,346	73,466	(2,880)
36	Co-curricular/extracurricular activities	4,000	4,400	4,582	182
41	General administration	257,458	257,458	244,464	(12,994)
51	Plant maintenance and operations	283,047	263,047	258,825	(4,222)
52	Security and monitoring services	10,400	11,440	10,464	(976)
53	Data processing services	39,731	42,731	42,009	(722)
71	Debt services	420,500	462,550	243,727	(218,823)
	Total expenses	<u>2,517,721</u>	<u>2,514,044</u>	<u>2,237,231</u>	<u>(276,813)</u>
	Change in net assets/(deficit)	(135,722)	1,038	285,272	(269,392)
	Net deficit, beginning of year	(862,979)	(862,979)	(862,979)	-
	Net deficit, ending of year	<u>\$ (998,701)</u>	<u>\$ (861,941)</u>	<u>\$ (577,707)</u>	<u>\$ (269,392)</u>

## COMPLIANCE AND INTERNAL CONTROL





**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  
West Houston Charter Alliance, Inc.  
dba Aristoi Classical Academy

We have audited the financial statements of West Houston Charter Alliance, Inc. dba Aristoi Classical Academy (the “Academy”), a Texas nonprofit organization, as of and for the year ended August 31, 2012, and have issued our report thereon dated January 11, 2013. 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.

**Internal Control over Financial Reporting**

Management of the Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Academy’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy’s internal control over financial reporting.

*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 Academy’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the Academy, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McConnell & Jones LLP*

Houston, Texas  
January 11, 2013

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**WEST HOUSTON CHARTER ALLIANCE INC.**  
**dba ARISTOI CLASSICAL ACADEMY**  
(A Texas Nonprofit Organization)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED AUGUST 31, 2012**

**SECTION 1:**

**SUMMARY OF AUDITORS' RESULTS**

*Financial Statement Section:*

- |  |             |
|--|-------------|
| 1. Type of auditors' report issued:  | Unqualified |
| 2. Internal control over financial reporting:  |             |
| a) Material weakness identified?   | No          |
| b) Significant deficiency identified that is not considered to be a material weakness? | No          |
| c) Noncompliance material to financial statements noted?                               | No          |

**WEST HOUSTON CHARTER ALLIANCE INC.  
dba ARISTOI CLASSICAL ACADEMY  
(A Texas Nonprofit Organization)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED AUGUST 31, 2012**

**SECTION 2:**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None identified

**WEST HOUSTON CHARTER ALLIANCE INC.  
dba ARISTOI CLASSICAL ACADEMY  
(A Texas Nonprofit Organization)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS**

**YEAR ENDED AUGUST 31, 2012**

There were no prior year audit findings on which to report.