

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

Annual Financial and Compliance Audit
For the Year Ended
August 31, 2013

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

AUGUST 31, 2013

TABLE OF CONTENTS

	<u>Page Number</u>
CERTIFICATE OF BOARD	i
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
SUPPLEMENTARY INFORMATION	
Statement of Activities – By Function	16
Schedule of Expenses	17
Schedule of Capital Assets	18
Budgetary Comparison Schedule	19
COMPLIANCE AND INTERNAL CONTROL	
Independent Auditors' 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 Responses	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

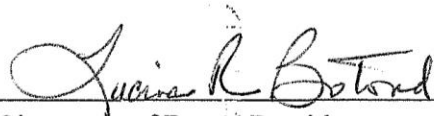
76-0495959

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, 2013, at a meeting of the governing body of the charter holder on the 20th day of January, 2014.



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 financial statements of West Houston Charter Alliance, Inc. dba Aristoi Classical Academy (the "Academy"), a Texas nonprofit organization, which comprise the statement of financial position as of August 31, 2013, 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 the Academy as of August 31, 2013, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed on the table of contents, as required by the Texas Education Agency, 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 20, 2014, 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* in considering the Academy's internal control over financial reporting and compliance



Houston, Texas
January 20, 2014

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

Statement of Financial Position

August 31, 2013

ASSETS

CURRENT ASSETS

Cash	\$ 262,561
Cash and cash equivalents, restricted	209,576
Due from Texas Education Agency	107,034
Other receivables	<u>5,466</u>
Total current assets	<u>584,637</u>

NONCURRENT ASSETS

Deferred charges (bond issuance cost)	133,411
Property and equipment, net	<u>1,473,735</u>
Total noncurrent assets	<u>1,607,146</u>

TOTAL ASSETS \$2,191,783

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$37,427
Accrued salaries and related liabilities	29,084
Bonds payable, current portion	<u>215,000</u>
Total current liabilities	<u>281,511</u>

LONG-TERM LIABILITIES

Bonds payable	<u>1,125,000</u>
Total long-term liabilities	<u>1,125,000</u>

TOTAL LIABILITIES \$1,406,511

NET ASSETS

Temporarily restricted	478,843
Unrestricted	<u>306,429</u>
Total net assets	<u>785,272</u>

TOTAL LIABILITIES AND NET ASSETS \$ 2,191,783

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

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

Statement of Activities
Year Ended August 31, 2013

	Unrestricted	Temporarily Restricted	Totals
REVENUES			
Local support:			
Earnings from deposits and investments	\$ 71	\$ -	\$ 71
Gifts and bequests	48,497	-	48,497
Other revenues from local sources	57,990	17,123	75,113
Enterprising services revenue	32,402	-	32,402
Gain on extinguishment of bonds	934,324	-	934,324
Total local support	<u>1,073,284</u>	<u>17,123</u>	<u>1,090,407</u>
State program revenues:			
Foundation school program	-	2,322,400	2,322,400
Other state aid	-	1,729	1,729
Total state program revenues	<u>-</u>	<u>2,324,129</u>	<u>2,324,129</u>
Federal program revenues:			
ESEA Title I, Part A, Improvement Basic	-	20,772	20,772
ESEA Title II, Part A, Teacher, Principal Training	-	5,790	5,790
National School Breakfast and Lunch	-	36,487	36,487
ESEA Title III, Part A	-	1,320	1,320
IDEA Part B, Formula	-	42,112	42,112
IDEA Part B, Pre-School	-	435	435
Total federal program revenues	<u>-</u>	<u>106,916</u>	<u>106,916</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	2,158,473	(2,158,473)	-
Total revenues	<u>3,231,757</u>	<u>289,695</u>	<u>3,521,452</u>
EXPENSES			
Program services:			
Instruction and instructional related services	1,159,559	-	1,159,559
Instructional and school leadership	149,087	-	149,087
Total program services	<u>1,308,646</u>	<u>-</u>	<u>1,308,646</u>
Support services:			
Administrative support services	237,478	-	237,478
Support services – student	95,825	-	95,825
Support services – non-student based	313,838	-	313,838
Fund raising	11,019	-	11,019
Total support services	<u>658,160</u>	<u>-</u>	<u>658,160</u>
Debt service			
	<u>191,667</u>	<u>-</u>	<u>191,667</u>
Total expenses	<u>2,158,473</u>	<u>-</u>	<u>2,158,473</u>
Change in net assets	1,073,284	289,695	1,362,979
NET (DEFICIT)/ASSETS, BEGINNING OF YEAR	(766,855)	189,148	(577,707)
NET ASSETS, END OF YEAR	<u>\$ 306,429</u>	<u>\$ 478,843</u>	<u>\$ 785,272</u>

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

WEST HOUSTON CHARTER ALLIANCE INC.
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(A Delaware Nonprofit Organization)

Statement of Cash Flows
Year Ended August 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
State grants (including Foundation school program)	\$ 2,316,443
Federal grants	102,722
Miscellaneous sources	152,315
Interest payments for bonds	(264,778)
Payments to vendors for goods and services rendered	(388,306)
Payments to charter school personnel for services rendered	(1,419,602)
Net cash provided by operating activities	498,794
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of bonds	(555,676)
Net cash used in financing activities	(555,676)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(56,882)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	529,019
CASH AND CASH EQUIVALENTS, END OF YEAR	\$472,137

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

Change in net assets	\$1,362,979
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	70,709
Amortization of bond issuance cost	112,342
Gain on extinguishment of bonds	(934,324)
Increase in due from Texas Education Agency	(11,880)
Increase in accounts payable	31,372
Decrease in accrued salaries and related liabilities	(21,807)
Decrease in accrued interest payable	(110,597)
Total adjustments	(864,185)
Net cash provided by operating activities	\$ 498,794

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

WEST HOUSTON CHARTER ALLIANCE INC.
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Notes to the Financial Statements

Year Ended August 31, 2013

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 Delaware 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 2013 and did not conduct any other charter or non-charter activities.

Corporate Operations

The Charter School provides educational services to students in grades kindergarten through the 8th grade. In 2013, the Commissioner of Education approved the addition of a 9th 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 Delaware Nonprofit Organization)

Notes to the Financial Statements

Year Ended August 31, 2013

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 Delaware Nonprofit Organization)

Notes to the Financial Statements

Year Ended August 31, 2013

unrestricted, temporarily restricted, or permanently restricted? 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, 2013.

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, 2013 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. The value of cash equivalents included in cash and cash equivalents as of August 31, 2013, was \$192,453. Restricted cash and cash equivalents primarily comprise of amounts restricted for payment of bond obligations.

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

Notes to the Financial Statements

Year Ended August 31, 2013

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. The Academy's Federal income tax returns for years 2010 through 2012 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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

Notes to the Financial Statements

Year Ended August 31, 2013

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the Academy's financial statements relate primarily to the useful lives applied in asset depreciation and functional allocation of expenses.

New Accounting Pronouncements

In October 2012, the FASB issued Accounting Standards Update (ASU) 2012-05 – Statement of Cash Flows (Topic 230), *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated assets that upon receipt were directed without any limitations for sale imposed by the not-for-profit entity and were converted nearly immediately into cash. This update will be effective for the Academy's 2014 annual financial statements. Management does not anticipate that this update will significantly affect the Academy's financial statements

2. CONCENTRATION OF CREDIT AND BUSINESS RISKS

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Academy will not be able to recover its deposits. The Academy's deposit policy is to maintain deposits at federally insured banks and obtain collateral from financial institutions, whenever possible, to minimize the custodial credit risk. The total cash maintained by the Academy in those banks as of August 31, 2013 was \$507,645 of which \$65,193 exceeded the Federal Deposit Insurance Corporation insured limit of up to \$250,000 per bank. However, these were secured by collateral from the financial institution. As of August 31, 2013, the value of such collateral was \$880,624; hence, the Academy was not exposed to custodial credit risk as of August 31, 2013. Cash reported in the statement of financial position is different from the cash at banks due to outstanding checks and similar reconciling items.

Credit risk associated with receivables is minimal due to the credit worthiness of the federal, state, and local funding agencies.

WEST HOUSTON CHARTER ALLIANCE INC.
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Notes to the Financial Statements

Year Ended August 31, 2013

The State of Texas provided 90% of the Academy’s total revenues for the year ended August 31, 2013.

3. PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2013 were as follows:

	Amount
Land	\$ 101,999
Building and leasehold improvements	2,160,374
Furniture and playground equipment	78,672
Computer and office equipment	38,280
Total property and equipment	2,379,324
Less accumulated depreciation	(905,590)
Property and equipment, net	\$ 1,473,735

Depreciation and amortization expense for the year ended August 31, 2013 was \$70,709.

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 pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets on page 18.

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 \$2,510,000 of “Qualified Tax Exempt” Education Revenue Bonds Series 2002A and \$320,000 of “Taxable” Education Revenue Bond Series 2002B (collectively “Bonds”) as follows:

Description	Interest Rates	Maturity	Face Value
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
			2,510,000
 Education Revenue Bond Series 2002B	 9.000%	 February 1, 2008	 320,000
 Total			 \$ 2,830,000

WEST HOUSTON CHARTER ALLIANCE INC.
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(A Delaware Nonprofit Organization)

Notes to the Financial Statements

Year Ended August 31, 2013

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.

The Academy defaulted on the payment of principal for Education Revenue Bond Series 2002A and 2002B that matured on February 1, 2008 and 2012, respectively, having a combined face value of \$480,000. No principal payments were due for any of the remaining bonds. Additionally, the Academy had past due interest which was accrued prior to 2010 and did not meet the Bond sinking fund requirements per the Bond Indenture. However, the Academy is under a forbearance agreement with the Bond Trustee and the Authority that was effective March 1, 2012 that remains in force; consequently, the Trustee and/or Authority will not, for a limited time period, 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 in effect until June 30, 2014 as long as the Charter Holder does not incur any additional incidents of default or 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 is required to pay \$18,432.81 each month.

Of the total outstanding balance of \$2,830,000 as of August 31, 2012, the school tendered \$1,490,000 of bonds in June 2013 at an average price of \$0.37 per \$1.00 of face value. Because of the terms and conditions of the tender offer, the bond holders who tendered their bonds were not due any interest; therefore, the interest was reduced in fiscal year ended August 31, 2013. As a result of the tender offer and its acceptance, the Academy paid \$555,676 in consideration for \$1,490,000 tendered, resulting in a gain on extinguishment of debt in the amount of \$934,324 that was reported in the statement of activities.

During the fiscal year ended August 31, 2013, the Charter Holder met its monthly payment obligations per the forbearance agreement; however, principal payments on the Education Revenue Bond Series 2002A maturing on February 1, 2012 in the amount of \$120,000 remained past due as of August 31, 2013 and was paid subsequent to fiscal year end, as disclosed in Note 10 on Subsequent Events. Interest expense for the year ended August 31, 2013 amounted to \$154,181 and was fully paid in the current fiscal year.

As of August 31, 2013, the Academy was not current with its payments to the bond sinking fund, but was allowed to defer these payments under the terms of the forbearance agreement. As of fiscal year ended August 31, 2013, the Academy had a cash balance of \$192,453 that was included in the amount of restricted cash and cash equivalents in the statement of financial position related to this sinking fund requirement. As noted in Note 10 on Subsequent Events, the Academy made additional payments to the Trustee to cure this default.

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

Notes to the Financial Statements

Year Ended August 31, 2013

Unamortized Bond issuance cost amounted to \$127,734. The following is a summary of the long-term liabilities of the Academy as of August 31, 2013:

Description	Interest Rates	Maturity	Beginning balance as of August 31, 2012	Additions	Reduction*	Balance as of August 31, 2013
Education Revenue Bond Series 2002A	6.50%	1-Feb-12	\$160,000	\$ -	\$40,000	\$120,000
Education Revenue Bond Series 2002A	7.50%	1-Feb-22	670,000	-	525,000	145,000
Education Revenue Bond Series 2002A	7.75%	1-Feb-26	445,000	-	10,000	435,000
Education Revenue Bond Series 2002A	7.88%	1-Feb-32	1,235,000	-	595,000	640,000
			<u>2,510,000</u>	-	1,170,000	1,340,000
Education Revenue Bond Series 2002B	9.00%	1-Feb-08	320,000	-	320,000	-
Total			<u>\$2,830,000</u>	\$ -	<u>\$1,490,000</u>	\$1,340,000
Less: current portion						<u>215,000</u>
Long-term portion						<u>1,125,000</u>

*Redeemed via Tender (Face Value)

Future principal maturities on long-term debt at August 31, 2013 are as follows:

Year Ending August 31,	Amount
2014	215,000
2015	50,000
2016	-
2017	-
2018 and thereafter	<u>1,075,000</u>
	<u>\$ 1,340,000</u>

5. TEMPORARILY RESTRICTED NET ASSETS

As required by House Bill 6, 77th 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 students of the Charter School. As of August 31, 2013, the Academy had temporarily

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

Notes to the Financial Statements

Year Ended August 31, 2013

restricted net assets of \$478,843 that primarily represented unspent receipts from the Foundation School Program.

6. OPERATING LEASES

The Academy leases portable modular classrooms under a 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. Total rental expense for the year ended August 31, 2013 was \$23,076.

As of August 31, 2013, future minimum lease payment for fiscal year ending August 31, 2014 is \$18,974.

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 downloading the report from the TRS Internet website, 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 6.80% 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 6.80% of the covered payroll of employees compensated with Federal funds for retirement. For the fiscal year ended August 31, 2013, the Academy’s total contribution to TRS for

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

Notes to the Financial Statements

Year Ended August 31, 2013

retirement was \$12,322. For the fiscal year ended August 31, 2013, the Academy's employees contributed a total of approximately \$79,193 to TRS for retirement.

8. HEALTH CARE COVERAGE

During the year ended August 31, 2013, employees of the Academy were covered by the TRS-Active Care, 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 September 2013, the Academy entered into a five (5) year lease agreement to rent premises expiring in September 2018. Monthly base rental payments for the first two (2) years of the lease are \$1,000 per month which will increase to \$1,250 per month for the remainder of the lease term.

In November 2013, the Trustee remitted the outstanding principal in the amount of \$120,000 for the Education Revenue Bond Series 2002A that matured on February 1, 2012 to holders of record as of November 6, 2013. This distribution was paid with funds received from the School under the terms of the forbearance agreement mentioned in note 4 above. Additionally, in December 2013, the School remitted additional payments to the Trustee to bring the bond sinking fund current.

Management has evaluated subsequent events through January 20, 2014; the date financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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

Statement of Activities – By Function
Year Ended August 31, 2013

	Unrestricted	Temporarily Restricted	Totals
REVENUES			
Local support:			
5742	\$ 71	\$ -	\$ 71
5744	48,497	-	48,497
5749	57,990	17,123	75,113
5755	32,402	-	32,402
57XX	934,324	-	934,324
	<u>1,073,284</u>	<u>17,123</u>	<u>1,090,407</u>
State program revenues:			
5812	-	2,322,400	2,322,400
5829	-	1,729	1,729
	<u>-</u>	<u>2,324,129</u>	<u>2,324,129</u>
Federal program revenues:			
211	-	20,772	20,772
255	-	5,790	5,790
263	-	1,320	1,320
224	-	42,112	42,112
225	-	435	435
240	-	36,487	36,487
	<u>-</u>	<u>106,916</u>	<u>106,916</u>
Net assets released from restrictions:			
	2,158,473	(2,158,473)	-
	<u>3,231,757</u>	<u>289,695</u>	<u>3,521,452</u>
EXPENSES			
11	1,118,266	-	1,118,266
12	21,500	-	21,500
13	19,793	-	19,793
23	149,087	-	149,087
31	11,707	-	11,707
33	895	-	895
35	72,964	-	72,964
36	10,259	-	10,259
41	237,478	-	237,478
51	267,724	-	267,724
52	4,766	-	4,766
53	41,348	-	41,348
71	191,667	-	191,667
81	11,019	-	11,019
	<u>2,158,473</u>	<u>-</u>	<u>2,158,473</u>
	1,073,284	289,695	1,362,979
	(766,855)	189,148	(577,707)
NET DEFICIT, BEGINNING OF YEAR	(766,855)	189,148	(577,707)
NET ASSETS, END OF YEAR	<u>\$ 306,429</u>	<u>\$ 478,843</u>	<u>\$ 785,272</u>

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

Schedule of Expenses
Year Ended August 31, 2013

Expenses		
6100	Payroll costs	\$ 1,397,794
6200	Professional and contracted services	318,855
6300	Supplies and materials	109,257
6400	Other operating costs	140,900
6500	Debt service	<u>191,667</u>
	Total expenses	<u>\$ 2,158,473</u>

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

Schedule of Capital Assets
Year Ended August 31, 2013

	Ownership Interest		
	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 Delaware Nonprofit Organization)

Budgetary Comparison Schedule
Year Ended August 31, 2013

		Budgeted Amounts				
		<i>Original</i>	<i>Final</i>	<i>Actual Amounts</i>	<i>Variance from Final Budget</i>	<i>% Variance</i>
Revenues						
5700	Local and intermediate sources	\$ 162,000	\$ 125,000	\$ 1,090,407	\$ 965,407	772% ⁽¹⁾
5800	State program revenue	2,143,000	2,304,000	2,324,129	20,129	1%
5900	Federal program revenues	123,000	100,000	106,916	6,916	7%
Total revenues		<u>2,428,000</u>	<u>2,529,000</u>	<u>3,521,452</u>	<u>992,452</u>	
Expenses						
11	Instruction	1,132,860	1,132,860	1,118,266	(14,594)	-1%
12	Instruction resources and media services	23,918	21,528	21,500	(28)	0%
13	Curriculum development and staff instructional development	32,537	29,284	19,793	(9,491)	-32% ⁽²⁾
23	School leadership	172,379	155,179	149,087	(6,092)	-4%
31	Guidance, counseling, and evaluation services	28,000	25,200	11,707	(13,493)	-54% ⁽³⁾
33	Health services	800	880	895	15	2%
35	Food services	73,769	73,769	72,967	(805)	-1%
36	Co-curricular/extracurricular activities	12,500	11,250	10,259	(991)	-9%
41	General administration	221,563	243,713	237,478	(6,235)	-3%
51	Plant maintenance and operations	278,148	265,148	267,724	2,576	1%
52	Security and monitoring services	4,462	4,362	4,766	404	9%
53	Data processing services	42,312	42,312	41,348	(964)	-2%
71	Debt services	387,500	348,750	191,667	(269,425)	-45% ⁽⁴⁾
81	Fund raising	10,000	10,500	11,019	519	5%
Total expenses		<u>2,420,748</u>	<u>2,364,735</u>	<u>2,158,473</u>	<u>(206,262)</u>	
Change in net assets/(deficit)		7,252	164,265	1,362,979	786,190	
Net deficit, beginning of year		<u>(577,707)</u>	<u>(577,707)</u>	<u>(577,707)</u>	<u>-</u>	
Net deficit, ending of year		<u>\$ (570,455)</u>	<u>\$ (413,442)</u>	<u>\$ 785,272</u>	<u>\$ 786,190</u>	

Explanation of +/- 10% variance:

(1) Debt restructuring due to Tender Offer on the Bond debt. Also, unanticipated donations from local sources.

(2) Staff development training held on site by school staff due to unanticipated cancellation of off site professional development training. Additionally, the cost for other professional development training was offset by a grant.

(3) A decreased need for outside evaluation and counseling services.

(4) Due to the terms and conditions of the Tender Offer, bond holders who tendered their bonds were not due any interest.

Compliance and Internal Control



**INDEPENDENT AUDITORS' 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, 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 West Houston Charter Alliance, Inc. dba Aristoi Classical Academy (the "Academy"), a Delaware nonprofit organization, which comprise the statement of financial position as of August 31, 2013, 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 20, 2014.

Internal Control over Financial Reporting

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

Houston, Texas
January 20, 2014

SCHEDULE OF FINDINGS AND REPOSSES

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

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2013

SECTION 1:

SUMMARY OF AUDITORS' RESULTS

Financial Statement Section:

- | | |
|--|------------|
| 1. Type of auditors' report issued: | Unmodified |
| 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
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SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2013

SECTION 2:

FINDINGS – FINANCIAL STATEMENT AUDIT

None identified

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS
YEAR ENDED AUGUST 31, 2013

There were no audit findings reported in the Schedule of Findings and Responses for fiscal year ended August 31, 2013.