

**ARISTOI CLASSICAL ACADEMY, INC.
(A NON PROFIT ORGANIZATION)**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended August 31, 2015

ARISTOI CLASSICAL ACADEMY, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended August 31, 2015

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Aristoi Classical Academy, Inc.
(Federal Employer Identification Number: 76-0495959)
Certificate of Board

Aristoi Classical Academy, Inc.

Name of Charter Holder

76-0495959

Federal Employer ID Number

Aristoi Classical Academy

Name of Charter School

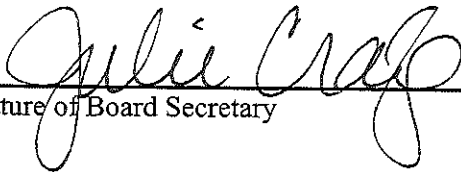
Harris

County

101-803

County District Number

We, the undersigned, certify that the attached Financial and Compliance Report of Aristoi Classical Academy was reviewed and (check one) approved disapproved for the year ended August 31, 2015, at a meeting of the governing body of the charter holder on the 25th day of January, 2016.



Signature of Board Secretary



Signature of Board President

NOTE: If the governing body of the charter holder does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Aristoi Classical Academy, Inc.
Katy, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Aristoi Classical Academy, Inc. (a nonprofit Academy), which comprise the statement of financial position as of August 31, 2015 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aristoi Classical Academy, Inc. (the "Academy") as of August 31, 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Academy as of August 31, 2014, were audited by other auditors whose report dated January 26, 2015, expressed an unmodified opinion on those statements.

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 such as the budgetary comparison schedule, schedule of expenses, and schedule of capital assets, 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 25, 2016, on our consideration of Aristoi Classical 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 Aristoi Classical Academy, Inc.'s internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
January 25, 2016

GENERAL PURPOSE FINANCIAL STATEMENTS

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ARISTOI CLASSICAL ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

Assets	August 31,	
	2015	2014
Current Assets:		
Cash and Cash Equivalents	\$ 581,539	\$ 758,784
Due from Texas Education Agency	305,975	139,919
Due from other governments	1,189	
Other Receivables		5,466
Other Assets	9,700	
Restricted Cash Equivalents		204,988
Total current assets	898,403	1,109,157
Noncurrent Assets:		
Deferred charges (bond issuance cost)		126,000
Property and Equipment, net	1,468,550	1,409,204
Total noncurrent assets	1,468,550	1,535,204
Total Assets	\$ 2,366,953	\$ 2,644,361
 Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 107,227	\$ 28,482
Payroll deductions and withholdings		1,124
Accrued salaries payable	58,164	44,284
Current portion of bonds payable		50,000
Total Current Liabilities	165,391	123,890
Bonds payable net of discount and current portion		1,075,000
Total Liabilities	165,391	1,198,890
 Net Assets:		
Unrestricted	611,252	417,984
Temporarily Restricted	1,590,310	1,027,487
Total Net Assets	2,201,562	1,445,471
Total Liabilities and Net Assets	\$ 2,366,953	\$ 2,644,361

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

ARISTOI CLASSICAL ACADEMY, INC.

STATEMENTS OF ACTIVITIES

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>August 31,</u>	
			<u>2015</u>	<u>2014</u>
Revenues				
Local Support:				
Earnings from deposits and investments	\$ 1,249	\$	\$ 1,249	\$ 30
Gifts and bequests	46,047		46,047	33,394
Other revenues from local sources	89,610		89,610	53,702
Food Service Activity	56,362		56,362	49,136
Extracurricular Activities				2,670
Total Local Support	<u>193,268</u>		<u>193,268</u>	<u>138,932</u>
State Program Revenues:				
Per Capita and Foundation School				
Program Act Revenues		4,017,110	4,017,110	3,144,748
State Program Revenues Distributed by Texas				
Education Agency		114,730	114,730	32,317
Total State Program Revenues		<u>4,131,840</u>	<u>4,131,840</u>	<u>3,177,065</u>
Federal Program Revenues:				
ESEA Title I, Part A		22,171	22,171	18,512
ESEA Title II, Part A		8,237	8,237	7,829
National School Breakfast and Lunch		42,709	42,709	43,119
ESEA Title III, Part A		1,189	1,189	1,275
IDEA Part B, Formula		64,262	64,262	61,526
IDEA Part B, Pre-School		454	454	654
Total Federal Program Revenues		<u>139,022</u>	<u>139,022</u>	<u>132,915</u>
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	3,708,039	(3,708,039)		
Total Revenues	<u>3,901,307</u>	<u>562,823</u>	<u>4,464,130</u>	<u>3,448,912</u>

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

ARISTOI CLASSICAL ACADEMY, INC.

STATEMENTS OF ACTIVITIES (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>August 31,</u>	
			<u>2015</u>	<u>2014</u>
Expenses				
Instruction	\$ 2,050,104	\$	\$ 2,050,104	\$ 1,545,454
Instructional Resources and Media Services	5,097		5,097	14,821
Curriculum Development and Instructional Staff Development	42,603		42,603	31,132
School Leadership	271,771		271,771	163,415
Guidance, Counseling & Evaluation Services	18,286		18,286	32,236
Health Services	20,037		20,037	25,956
Food Services	118,735		118,735	115,465
Extracurricular Activities	15,272		15,272	16,770
General Administration	409,080		409,080	300,128
Facilities Maintenance and Operations	478,842		478,842	336,491
Security and Monitoring Services	13,958		13,958	13,401
Data Processing Services	53,152		53,152	46,727
Debt Services	199,730		199,730	125,898
Fund Raising	11,372		11,372	20,819
Total Expenses	<u>3,708,039</u>		<u>3,708,039</u>	<u>2,788,713</u>
 Change in Net Assets	 193,268	 562,823	 756,091	 660,199
 Net Assets, beginning of year	 <u>417,984</u>	 <u>1,027,487</u>	 <u>1,445,471</u>	 <u>785,272</u>
 Net Assets, end of year	 <u>\$ 611,252</u>	 <u>\$ 1,590,310</u>	 <u>\$ 2,201,562</u>	 <u>\$ 1,445,471</u>

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

ARISTOI CLASSICAL ACADEMY, INC.

STATEMENTS OF CASH FLOWS

	August 31,	
	2015	2014
Cash flows from operating activities:		
Foundation school program payments	\$ 3,937,847	\$ 3,144,997
Grant payments	51,040	132,098
Other state and local revenue payments	313,464	146,343
Payments to vendors for goods and services rendered	(780,407)	(986,585)
Payments to charter school personnel for services rendered	(2,441,932)	(1,848,392)
Interest payments	(199,730)	125,898
Net cash provided in operating activities	<u>880,282</u>	<u>714,359</u>
Cash flows from investing activities:		
Purchase of Fixed Assets	(137,515)	(7,724)
Net cash used in investing activities	<u>(137,515)</u>	<u>(7,724)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(1,125,000)	(215,000)
Net cash used by financing activities	<u>(1,125,000)</u>	<u>(215,000)</u>
Net Change in cash and cash equivalents	(382,233)	491,635
Beginning cash and cash equivalents	963,772	472,137
Ending cash and cash equivalents	<u>\$ 581,539</u>	<u>\$ 963,772</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Increase (decrease) in net assets	\$ 756,091	\$ 660,199
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	204,169	72,255
(Increase) decrease in:		
Due from Texas Education Agency	(166,056)	(32,885)
Due from other governments	(1,189)	
Other receivables	5,466	
Other assets	(9,700)	
Deferred charges		7,411
Increase (decrease) in operating liabilities:		
Accounts payable	78,745	(8,945)
Accrued salaries payable and related liabilities	12,756	16,324
Net cash provided by operating activities	<u>\$ 880,282</u>	<u>\$ 714,359</u>

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

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2015

Note 1 - Summary of Significant Accounting Policies

The general-purpose financial statements of Aristoi Classical Academy, Inc. (the "Academy") were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Academy is a not-for-profit organization incorporated in the State of Delaware in 1996 and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Academy is governed by a Board of Directors comprised of seven members. The members of the Board of Directors are appointed in accordance with provisions contained in the bylaws of the Academy. The Board of Directors has the authority to make decisions, appoint the administrator of the Academy, and significantly influence 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.

Corporate Operations

The Academy provides educational services in the City of Katy to students in grades kindergarten through the 9th grade. In 2013, the Commissioner of Education approved the addition of grade 9 and in 2014 approved the addition of grades 10-12. 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 Academy 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 Academy does not have the authority to impose ad valorem taxes on its district or to charge tuition.

The Academy's charter was approved for renewal on April 2, 2014 and will expire on July 31, 2021.

Basis of Accounting and Presentation

The accompanying general purpose financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

In accordance with Accounting Standards Codification Topic 958-205 (ASC Topic No. 958) *Not-For-Profit Entities-Presentation of Financial Statements*, net assets, revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor imposed restrictions. Accordingly, net assets of the Academy and changes therein are classified and reported as follows:

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation (continued)

Unrestricted - net assets that are not subject to donor-imposed restrictions. As of August 31, 2015, unrestricted net assets totaled \$611,252.

Temporarily restricted - net assets subject to donor-imposed stipulations that may or will be met either by actions of the corporation, the charter school and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. As of August 31, 2015, temporarily restricted net assets totaled \$1,590,310.

Permanently restricted - net assets required to be maintained in perpetuity with only the income to be used for the Academy's activities due to donor-imposed restrictions. As of August 31, 2015, the Academy had no permanently restricted net assets.

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most sensitive estimate affecting the Academy's financial statements was the depreciation of capital assets and functional allocation of expenses.

Contributions

The Academy accounts for contributions in accordance with FASB ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*. In accordance with FASB ASC Topic 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For financial statement purposes, the Academy considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents. As of August 31, 2015, the Academy had no cash equivalents.

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition

State Foundation School Program revenues are recognized based on the reported student attendance. State and Federal grant revenues are recognized when services are rendered. Contributions and other revenues are recognized when received or unconditionally promised by a third party.

Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the Academy as assets with an individual cost of more than \$5,000 and a useful life over one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to thirty-nine years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expenses as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost. The Academy had no donated capital assets at August 31, 2015.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

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 ("the Code") and comparable State of Texas law. The Academy did not conduct any unrelated business activities in the current fiscal year. Therefore, the Academy has made no provision for federal income taxes in the accompanying financial statements. The Academy has also been classified as a publically supported Academy, which is not a private foundation under Section 509(a) 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*, 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 believes that it 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.

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Capital Assets

Capital assets at August 31, 2015 and 2014, were as follows:

	2015	2014
Land	\$ 116,999	\$ 101,999
Building and leasehold improvements	2,282,889	2,160,374
Furniture and playground equipment	78,671	78,671
Vehicles	7,724	7,724
Computer and Office Equipment	38,280	38,280
Total Property and Equipment	2,524,563	2,387,048
Less Accumulated Depreciation	(1,056,013)	(977,844)
Property and Equipment, Net	\$ 1,468,550	\$ 1,409,204

Depreciation expense for the fiscal years ended August 31, 2015 and August 31, 2014, was \$78,169 and \$72,255, respectively.

Capital assets acquired with public funds received by the Academy for the operation of Aristo Classical Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Note 3 - Concentration of Credit and Business Risk

The Academy maintains demand deposits with a U.S. local banking institution. 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 maintains deposits at a federally insured bank and strives to minimize its exposure to custodial credit risk. At August 31, 2015, the carrying amount of the Academy's cash deposits was \$581,539 and the bank's balance was \$678,840. All deposits at the banking institution were fully insured by the Federal Deposit Insurance Corporation's (FDIC) or secured by a collateral from the financial institution as of August 31, 2015.

Approximately 90% of the Academy's total revenue for fiscal year 2015 was provided by the State funding for the Per Capita and State Foundation Aid.

Note 4 - Defined Benefit Pension Plans

A. Plan Description

The Academy participates in a cost-sharing multi-employer defined benefit pension that has a special funding situation. The Academy is a legally separate entity from the State of Texas and other participants of the plan. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 - Defined Benefit Pension Plans (continued)

A. Plan Description (continued)

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. Assets contributed by one charter school or independent school district may be used for the benefit of an employee of another charter school or school district. Any unfunded obligations are passed along to other charter schools and school districts.

As of the last measurement date of August 31, 2014, total assets of TRS are \$157.3 billion, while accumulated benefit obligations totaled \$159.5 billion as of August 31, 2014, the latest measurement date. TRS is 83.25 percent funded. Furthermore, there is not a collective-bargaining agreement

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

B. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

C. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the 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 31 years, the period would be increased by such action.

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 - Defined Benefit Pension Plans (continued)

C. Contributions (continued)

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	Contribution Rates	
	Plan Fiscal Year	
	2014	2015
Member	6.40%	6.70%
Employer	6.80%	6.80%
Non-Employer Contributing Entity (State)	6.80%	6.80%

	Contributions Required and Made During the Measurement Year	TRS Contributions Made During the Fiscal Year
Total Covered Payroll	\$1,608,428	\$2,027,778
Member (Employee)	102,939	135,862
Charter School	12,260	9,497
Non-OASDI Surcharge	-0-	30,324
Pension Retiree Surcharge	-0-	-0-

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge. Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). There have been no changes that would affect the comparison of employer contributions from year to year. In addition, the charter school's contributions to TRS did not represent more than 5 percent of the total contributions to the TRS.

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 - Defined Benefit Pension Plans (continued)

C. Contributions (continued)

- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

Note 5 - Health Care Coverage

During the years ended August 31, 2015 and August 31, 2014, employees of the charter school were covered by a Health Insurance Plan (the Plan). The Academy contributed \$225 per month per employee to the Plan from September 2013 to August 2015. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 6 - Bonds Payable

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 ("Bonds") as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Face Value</u>
Education Revenue Bond Series 2002A	6.50%	February 1, 2012	\$ 160,000
Education Revenue Bond Series 2002A	7.50%	February 1, 2022	670,000
Education Revenue Bond Series 2002A	7.75%	February 1, 2026	445,000
Education Revenue Bond Series 2002A	7.88%	February 1, 2032	1,235,000
			<u>\$ 2,510,000</u>

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

During the 2015 fiscal year, long-term debt consisted of the following revenue bonds payable:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Education Revenue Bonds, Series 2002A	\$ 1,125,000	\$	\$ (1,125,000)	\$

All bonds were paid in full during the fiscal year ended August 31, 2015.

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 - Due from State and Other Governments

Amounts due from the Texas Education Agency at August 31, 2015 and 2014, consisted of the following:

	2015	2014
State Foundation Aid	\$ 219,182	\$ 139,919
Instructional Materials Allotment	86,793	
	\$ 305,975	\$ 139,919

Amounts due from other governments at August 31, 2015 and 2014, consisted of the following:

	2015	2014
Title III, Part A	1,189	

Note 8 - Operating Leases

The Academy leases property, modular portable classrooms and office equipment. The related operating lease expense for the fiscal year ended August 31, 2015, totaled \$92,758.

The future minimum rental payments required under non-cancellable lease agreements as of August 31, 2015, are as follows:

Year	Amount
2016	\$ 123,868
2017	8,808
Total	\$ 132,676

Note 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 in student attendance data submitted to the Texas Education Agency and 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.

Note 10 - State Aid

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period, and at the close of the year, actual attendance is calculated by the TEA and the attendance reports are subject to audit by the TEA and final State foundation program earnings may be adjusted as a result of any such audit. During the period ended August 31, 2015, the Charter Holder earned \$4,017,110 of Per Capita and State Foundation Aid funds (before any possible TEA enrollment and attendance audit).

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 11 - Charter Holder Operations

The charter holder only operated a single charter school and did not conduct any other charter or non-charter activities.

Note 12 - Related Party

One of the Academy board members also serves as a teacher of the Academy. The board member has signed a conflict of interest affidavit and has indicated abstinence from voting on any items related to teacher salaries and financial benefits.

Note 13 - Management's Review of Subsequent Events

Management has evaluated subsequent events through January 25, 2016, which is the date the 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.

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SUPPLEMENTARY INFORMATION

ARISTOI CLASSICAL ACADEMY, INC.

SCHEDULES OF EXPENSES

		August 31,	
		2015	2014
	Expenses		
6100	Payroll Costs	\$ 2,441,932	\$ 1,864,716
6200	Professional and Contract Services	495,868	394,262
6300	Supplies and Materials	353,835	239,187
6400	Other Operating Costs	216,674	164,650
6500	Debt	199,730	125,898
	Total Expenses	<u>\$ 3,708,039</u>	<u>\$ 2,788,713</u>

ARISTOI CLASSICAL ACADEMY, INC.

SCHEDULE OF CAPITAL ASSETS

For the Year Ended August 31, 2015

		Ownership Interest		
		Local	State	Federal
1510	Land and improvements	\$	\$ 116,999	\$
1520	Building & leasehold improvements		2,282,889	
1531	Vehicles		7,724	
1539	Furniture and equipment	95,085	21,866	
	Total Property & equipment	<u>\$ 95,085</u>	<u>\$ 2,429,478</u>	<u>\$</u>

ARISTOI CLASSICAL ACADEMY, INC.

BUDGETARY COMPARISON SCHEDULE

For the Year Ended August 31, 2015

	Original	Final	Actual Amounts	Variance from Final Budget	
Revenues					
Local Support:					
5700	Local and intermediate sources	\$ 131,362	\$ 131,362	\$ 193,268	\$ 61,906
5800	State program revenue	3,900,618	3,900,618	4,131,840	231,222
5900	Federal Program Revenues:	189,022	189,022	139,022	(50,000)
	Total Revenues	<u>4,221,002</u>	<u>4,221,002</u>	<u>4,464,130</u>	<u>243,128</u>
Expenses					
11	Instruction	1,940,205	1,940,205	2,050,104	(109,899)
12	Instructional Resources and Media Services	5,000	5,000	5,097	(97)
13	Curriculum Development and Instructional Staff Development	40,250	41,450	42,603	(1,153)
23	School Leadership	262,288	262,288	271,771	(9,483)
31	Guidance, Counseling and Evaluation Services	22,430	22,430	18,286	4,144
33	Health Services	27,083	27,083	20,037	7,046
35	Food Service	131,155	124,655	118,735	5,920
36	Cocurricular/Extracurricular Activities	20,000	18,000	15,272	2,728
41	General Administration	458,488	458,488	409,080	49,408
51	Facilities Maintenance and Operations	513,512	513,512	478,842	34,670
52	Security and Monitoring Services	16,000	16,000	13,958	2,042
53	Data Processing Services	59,702	59,702	53,152	6,550
71	Debt Service	98,500	88,650	199,730	(111,080)
81	Fund Raising	10,000	11,000	11,372	(372)
	Total Expenses	<u>3,604,613</u>	<u>3,588,463</u>	<u>3,708,039</u>	<u>(119,576)</u>
	Change in net assets	616,389	632,539	756,091	123,552
	Beginning net assets	1,445,471	1,445,471	1,445,471	-
	Ending net assets	<u>\$ 2,061,860</u>	<u>\$ 2,078,010</u>	<u>\$ 2,201,562</u>	<u>\$ 123,552</u>

ARISTOI CLASSICAL ACADEMY, INC.

BUDGETARY COMPARISON SCHEDULE (continued)

For the Year Ended August 31, 2015

Budget Variances

If the actual and final budgeted amounts vary by more than 10 percent of the final budgeted amounts, the charter holder must include a written statement discussing the cause of the variance(s) and the corrective action(s) that were taken to ensure that the charter school adheres to its budget. The Charter School provides the following explanations for each of the variances noted:

Function 31	There was a reduction in the amount of tests/evaluations needed.
Function 33	Employee declined benefits that were budgeted.
Function 36	Expenses were less due to volunteers assisting with extracurricular activities.
Function 41	Administration costs were lowered due to the utilization of fewer personnel.
Function 52	Volunteers were utilized which resulted in lowered expenses.
Function 53	There was a reduction due to donated technology supplies.
Function 71	Increased interest expense due to paying the bond debt in full.

Corrective Action Plan

The school will thoroughly review each function category to weigh the implications of going over budget.

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COMPLIANCE AND INTERNAL CONTROLS

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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
Aristoi Classical Academy, Inc.
Katy, 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 Aristoi Classical Academy, Inc. (the "Academy"), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2016.

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.

To the Board of Directors
Aristoi Classical Academy, Inc.

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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
January 25, 2016

To the Board of Directors of
Aristoi Classical Academy

We have audited the financial statements of Aristoi Classical Academy (the "Academy") for the year ended August 31, 2015, and have issued our report thereon dated January 25, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 3, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2015. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the depreciation expense on capital assets is based on useful lives and management's estimate of State Aid Revenues is based on the Texas Education Agency's State Aid Template. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of our procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 25, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Aristoi Classical Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Whitley Penn LLP

Houston, Texas
January 25, 2016