

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Year Ended August 31, 2016  
with Comparative Totals for 2015**



# ARISTOI CLASSICAL ACADEMY, INC.

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended August 31, 2016

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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

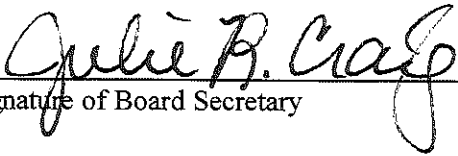
Harris

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, 2016, at a meeting of the governing body of the charter holder on the 23<sup>th</sup> day of January, 2017.



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 organization), which comprise the statement of financial position as of August 31, 2016 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Academy’s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***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 23, 2017, 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.



Houston, Texas  
January 23, 2017



**GENERAL PURPOSE FINANCIAL STATEMENTS**

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**ARISTOI CLASSICAL ACADEMY, INC.**

**STATEMENTS OF FINANCIAL POSITION**

	<b>August 31,</b>	
<b>Assets</b>	<b>2016</b>	<b>2015</b>
Current Assets:		
Cash and Cash Equivalents	\$ 967,148	\$ 581,539
Due from Texas Education Agency	313,535	305,975
Due from other governments		1,189
Other Assets	9,700	9,700
Restricted Cash	756,632	
Total current assets	2,047,015	898,403
Noncurrent Assets:		
Property and Equipment, net	5,475,244	1,468,550
Total noncurrent assets	5,475,244	1,468,550
Total Assets	\$ 7,522,259	\$ 2,366,953
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 145,323	\$ 107,227
Accrued interest payable	166,392	
Payroll deductions and withholdings	3,872	
Accrued salaries payable	74,605	58,164
Total Current Liabilities	390,192	165,391
Bonds payable net of discount, issue costs and current portion	4,201,015	
Total Liabilities	4,591,207	165,391
<b>Net Assets:</b>		
Unrestricted	788,409	611,252
Temporarily Restricted	2,142,643	1,590,310
Total Net Assets	2,931,052	2,201,562
Total Liabilities and Net Assets	\$ 7,522,259	\$ 2,366,953

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

**ARISTOI CLASSICAL ACADEMY, INC.**

**STATEMENTS OF ACTIVITIES**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>August 31, 2016</b>	<b>2015</b>
<b>Revenues</b>				
Local Support:				
Earnings from deposits and investments	\$ 2,370	\$	\$ 2,370	\$ 1,249
Gifts and bequests	55,186		55,186	46,047
Other revenues from local sources	56,004		56,004	89,610
Food Service Activity	63,597		63,597	56,362
Total Local Support	177,157		177,157	193,268
<b>State Program Revenues:</b>				
Per Capita and Foundation School				
Program Act Revenues		5,013,900	5,013,900	4,017,110
State Program Revenues Distributed by				
Texas Education Agency		17,492	17,492	114,730
Total State Program Revenues		5,031,392	5,031,392	4,131,840
<b>Federal Program Revenues:</b>				
ESEA Title I, Part A		21,402	21,402	22,171
ESEA Title II, Part A		9,287	9,287	8,237
National School Breakfast and Lunch		50,042	50,042	42,709
ESEA Title III, Part A				1,189
IDEA Part B, Formula		74,069	74,069	64,262
IDEA Part B, Pre-School				454
Total Federal Program Revenues		154,800	154,800	139,022
<b>Net Assets Released from Restrictions:</b>				
Restrictions satisfied by payments	4,633,859	(4,633,859)		
Total Revenues	4,811,016	552,333	5,363,349	4,464,130

*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, 2016</u>	<u>2015</u>
<b>Expenses</b>				
Instruction	\$ 2,484,481	\$	\$ 2,484,481	\$ 2,050,104
Instructional Resources and Media Services	4,971		4,971	5,097
Curriculum Development and Instructional Staff Development	46,651		46,651	42,603
School Leadership	426,863		426,863	271,771
Guidance, Counseling & Evaluation Services	31,797		31,797	18,286
Health Services	33,629		33,629	20,037
Food Services	138,151		138,151	118,735
Extracurricular Activities	16,043		16,043	15,272
General Administration	475,761		475,761	409,080
Facilities Maintenance and Operations	645,447		645,447	478,842
Security and Monitoring Services	9,092		9,092	13,958
Data Processing Services	105,598		105,598	53,152
Debt Services	197,156		197,156	199,730
Fund Raising	18,219		18,219	11,372
Total Expenses	<u>4,633,859</u>		<u>4,633,859</u>	<u>3,708,039</u>
Change in Net Assets	177,157	552,333	729,490	756,091
Net Assets, beginning of year	<u>611,252</u>	<u>1,590,310</u>	<u>2,201,562</u>	<u>1,445,471</u>
Net Assets, end of year	<u>\$ 788,409</u>	<u>\$ 2,142,643</u>	<u>\$ 2,931,052</u>	<u>\$ 2,201,562</u>

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

**ARISTOI CLASSICAL ACADEMY, INC.**

**STATEMENTS OF CASH FLOWS**

	<b>August 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Foundation school program payments	\$ 4,919,547	\$ 3,937,847
Grant payments	242,782	51,040
Other state and local revenue payments	194,649	313,464
Payments to vendors for goods and services rendered	(1,157,286)	(780,407)
Payments to charter school personnel for services rendered	(3,141,995)	(2,441,932)
Interest payments	(19,792)	(199,730)
Net cash provided in operating activities	1,037,905	880,282
<b>Cash flows from investing activities:</b>		
Purchase of Land	(3,684,396)	
Investment in Construction in progress	(401,311)	(137,515)
Net cash used in investing activities	(4,085,707)	(137,515)
<b>Cash flows from financing activities:</b>		
Bonds Payable issue	4,850,000	
Bond issue costs and discount	(659,957)	
Principal payments on long-term debt		(1,125,000)
Net cash provided (used) by financing activities	4,190,043	(1,125,000)
Net Change in cash and cash equivalents	1,142,241	(382,233)
Beginning cash and cash equivalents	581,539	963,772
Ending cash and cash equivalents	\$ 1,723,780	\$ 581,539
Unrestricted cash and cash equivalents	\$ 967,148	\$ 581,539
Restricted cash and cash equivalents	756,632	
	\$ 1,723,780	\$ 581,539
<b>Reconciliation of change in net assets to net cash provided (used) by operating activities:</b>		
Increase (decrease) in net assets	\$ 729,490	\$ 756,091
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	89,985	204,169
(Increase) decrease in:		
Due from Texas Education Agency	(7,560)	(166,056)
Due from other governments	1,189	(1,189)
Other receivables		5,466
Other assets		(9,700)
Increase (decrease) in operating liabilities:		
Accounts payable	38,096	78,745
Accrued interest payable	166,392	
Accrued salaries payable and related liabilities	20,313	12,756
Net cash provided by operating activities	\$ 1,037,905	\$ 880,282

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

**ARISTOI CLASSICAL ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**Year Ended August 31, 2016**

**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 10th 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, 2016, unrestricted net assets totaled \$788,409.

*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, 2016, temporarily restricted net assets totaled \$2,142,643.

*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, 2016, 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.



## 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, 2016.

##### *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, 2016 and 2015, were as follows:

	<b>2016</b>	<b>2015</b>
Land	\$ 3,801,395	\$ 116,999
Building and leasehold improvements	2,282,889	2,282,889
Furniture and playground equipment	78,671	78,671
Vehicles	7,724	7,724
Computer and Office Equipment	38,280	38,280
Construction in progress	—	—
<b>Total Property and Equipment</b>	6,208,959	2,524,563
Less Accumulated Depreciation	(1,135,026)	(1,056,013)
<b>Property and Equipment, Net</b>	<b>\$ 5,073,933</b>	<b>\$ 1,468,550</b>

Depreciation expense for the fiscal years ended August 31, 2016 and August 31, 2015, was \$79,013 and \$78,169, respectively.

Capital assets acquired with public funds received by the Academy for the operation of Aristoi 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.

Construction budgets and remaining commitments under related construction contracts as of August 31, 2016, follows:

<b>Project</b>	<b>Approved Construction Budget</b>	<b>Construction in Progress</b>	<b>Remaining Commitment</b>
Aristoi Classical Academy			
New Campus	\$ 4,863,407	\$	\$ 4,863,407

**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, 2016, the carrying amount of the Academy's cash deposits was \$967,148 and the bank's balance was \$1,105,146. In addition, the carrying amount and the bank balance of the Academy's restricted cash was \$756,632. 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, 2016.

Approximately 93% of the Academy's total revenue for fiscal year 2016 was provided by the State funding for the Per Capita and State Foundation Aid.

## ARISTOI CLASSICAL ACADEMY, INC.

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 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.

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.

##### *B. Pension Plan Fiduciary Net Position*

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.

##### *C. 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.

**ARISTOI CLASSICAL ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Note 4 - Defined Benefit Pension Plans (continued)**

***D. 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> 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 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2015 and 2016.

	<b>Contribution Rates</b>	
	<b>Plan Fiscal Year</b>	
	<b>2015</b>	<b>2016</b>
Member	6.70%	7.20%
Employer	6.80%	6.80%
Non-Employer Contributing Entity (State)	6.80%	6.80%

Contributors to the plan include members, employers, and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). Contributions and pension expense for all contributors were as follows:

	<b>Contributions Required and Made During the Measurement Year</b>	<b>TRS Contributions Made During the Fiscal Year</b>
Total Covered Payroll	\$2,027,778	\$2,783,460
Member (Employee)	135,862	205,678
Charter School	9,497	10,097
Non-OASDI Surcharge	30,324	41,826
Pension Retiree Surcharge	-0-	-0-

## ARISTOI CLASSICAL ACADEMY, INC.

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### Note 4 - Defined Benefit Pension Plans (continued)

##### *D. Contributions (continued)*

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.
- 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.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the Texas Retirement System, the employer shall pay both the member contribution rate and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

#### Note 5 - Health Care Coverage

During the years ended August 31, 2016 and August 31, 2015, 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 2016. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**ARISTOI CLASSICAL ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Note 6 - Bonds Payable**

During the 2016 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>	<u>Due Within One Year</u>
Education Revenue Bonds, Series 2016 A	\$	\$ 4,750,000	\$	\$ 4,750,000	\$
Taxable Education Revenue Bond Series 2016 B		100,000		100,000	
Bond issuance costs		(465,357)	7,735	(457,622)	
Bond discount		(194,600)	3,237	(191,363)	
	<u>\$</u>	<u>\$ 4,190,043</u>	<u>\$ 10,972</u>	<u>\$ 4,201,015</u>	<u>\$</u>

In February 2016, the Aristoi Classical Academy entered into a bond agreement with Pottsboro Higher Education Finance Corporation (the “Issuer”) and secured bond financing pursuant to Chapter 53 of the Texas Education Code to authorize the issuance of “Qualified Tax Exempt” Education Revenue Bonds Series 2016A not to exceed \$11,130,000; during the fiscal year ended August 31, 2016, the total amount of \$4,750,000 was drawn down in Series 2016A bonds, and \$100,000 of Taxable Education Revenue Bonds Series 2016B as follows:

<u>Series</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>
Education Revenue Bond Series 2016 A	\$ 4,750,000	7.50%	September 1, 2047	\$ 4,750,000
Taxable Education Revenue Bond Series 2016 B	100,000	9.00%	September 1, 2019	100,000
	<u>\$ 4,850,000</u>			<u>\$ 4,850,000</u>

The Bond Series 2016A listed above was issued at a discount of \$463,357 and the Academy incurred \$194,600 in bond issuance costs. The discount and the bond issuance costs are amortized over the life of the bond.

Proceeds from the issuance of Bonds during fiscal year 2016 were used to purchase land in Katy, Texas, and pay related bond issuance costs. The Bonds were secured by a first lien on the land and buildings of the Charter Holder.

**ARISTOI CLASSICAL ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Note 6 - Bonds Payable (continued)**

Bond payment requirements to maturity are as follows:

<u>Year Ending August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$	\$ 368,216	\$ 368,216
2018		365,251	365,251
2019	91,320	361,878	453,198
2020	56,053	354,854	410,907
2021	55,521	350,813	406,334
2022-2026	349,352	1,682,329	2,031,681
2027-2031	507,705	1,523,965	2,031,670
2032-2036	737,843	1,293,825	2,031,668
2037-2041	1,072,310	959,364	2,031,674
2042-2046	1,946,245	491,756	2,438,001
2047	33,651	210	33,861
	<u>\$ 4,850,000</u>	<u>\$ 7,752,461</u>	<u>\$ 12,602,461</u>

During the 2016 fiscal year, the Academy drew down \$4,750,000 of “Qualified Tax Exempt” Education Revenue Bonds Series 2016A and \$100,000 of Taxable Education Revenue Bonds Series 2016B. The projected draw down schedule is as follows:

<u>Draw Date</u>	<u>Series A Draw</u>	<u>Series B Draw</u>	<u>Tax-Exempt Series A Balance</u>	<u>Taxable Series B Balance</u>
3/1/2016	\$ 4,750,000	\$ 100,000	\$ 4,750,000	\$ 100,000
11/16/2016	1,095,000		5,845,000	100,000
3/1/2017	1,825,000		7,670,000	100,000
6/1/2017	1,535,000		9,205,000	100,000
9/1/2017	1,925,000		11,130,000	100,000

**Bond Covenants**

During the fiscal year 2016, the Academy was in compliance with the required Bond Covenants. The Academy is subject to the following covenants resulting from the bond issue:

*Debt Service Coverage Ratio:* Available Revenues for each Fiscal Year must be equal to at least 120% of the Annual Debt Service Requirements of the Company as of the Fiscal Year ending August 31, 2016 and annually thereafter until the Bonds have been paid in full.

*Liquidity Requirement:* For so long as the Bonds are Outstanding, the Academy shall budget and maintain operating reserves for each Fiscal Year beginning with the Fiscal Year ended August 31, 2016, in an amount equal to the required number of Days' Cash on Hand for the period set forth below:

<u>For the Fiscal Year Ending</u>	<u>Days' Cash on Hand Required</u>
August 31, 2016	55
August 31, 2017	70
August 31, 2018	85
August 31, 2019 and thereafter	90

**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, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
State Foundation Aid	\$ 313,535	\$ 219,182
Instructional Materials Allotment		86,793
	<u>\$ 313,535</u>	<u>\$ 305,975</u>

Amounts due from other governments at August 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
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, 2016, and August 31, 2015, totaled \$155,919 and \$92,758, respectively.

The future minimum rental payments required under non-cancellable lease agreements as of August 31, 2016, are as follows:

<u>Year</u>	<u>Amount</u>
2017	154,838
2018	3,588
2019	299
Total	<u>\$ 158,725</u>

**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, 2016, and August 31, 2015, the Charter Holder earned \$5,013,900 and \$4,017,110, respectively, 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 23, 2017, which is the date the financial statements were available to be issued.

Subsequent to year end, the charter school drew down \$1,095,000 from the "Qualified Tax Exempt" Education Revenue Bonds Series 2016A

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,	
		2016	2015
	<b>Expenses</b>		
6100	Payroll Costs	\$ 3,162,308	\$ 2,441,932
6200	Professional and Contract Services	752,241	495,868
6300	Supplies and Materials	292,967	353,835
6400	Other Operating Costs	229,187	216,674
6500	Debt	197,156	199,730
	Total Expenses	<u>\$ 4,633,859</u>	<u>\$ 3,708,039</u>

**ARISTOI CLASSICAL ACADEMY, INC.**

**SCHEDULE OF CAPITAL ASSETS**

**For the Year Ended August 31, 2016**

		<b>Ownership Interest</b>		
		<b>Local</b>	<b>State</b>	<b>Federal</b>
1510	Land and improvements	\$	\$ 3,801,395	\$
1520	Building & leasehold improvements		2,282,889	
1531	Vehicles		7,724	
1539	Furniture and equipment	95,085	21,866	
1580	Construction in progress		401,311	
	Total Property & equipment	<u>\$ 95,085</u>	<u>\$ 6,515,185</u>	<u>\$</u>

**ARISTOI CLASSICAL ACADEMY, INC.**

**BUDGETARY COMPARISON SCHEDULE**

**For the Year Ended August 31, 2016**

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
<b>Revenues</b>				
Local Support:				
5700	\$ 163,597	\$ 163,597	\$ 177,157	\$ 13,560
5800	4,854,441	4,854,441	5,031,392	176,951
5900	214,800	214,800	154,800	(60,000)
	<u>5,232,838</u>	<u>5,232,838</u>	<u>5,363,349</u>	<u>130,511</u>
<b>Expenses</b>				
11	2,448,265	2,448,265	2,484,481	(36,216)
12	5,000	5,000	4,971	29
13				
	74,054	68,654	46,651	22,003
23	501,409	451,409	426,863	24,546
31	31,156	31,156	31,797	(641)
33	34,673	34,673	33,629	1,044
35	124,973	130,973	138,151	(7,178)
36	20,000	20,000	16,043	3,957
41	511,804	511,804	475,761	36,043
51	542,431	596,674	645,447	(48,773)
52	16,000	16,000	9,092	6,908
53	88,388	97,188	105,598	(8,410)
71	520,000	468,000	197,156	270,844
81	20,000	20,000	18,219	1,781
	<u>4,938,153</u>	<u>4,899,796</u>	<u>4,633,859</u>	<u>265,937</u>
	294,685	333,042	729,490	396,448
Beginning net assets	<u>2,201,562</u>	<u>2,201,562</u>	<u>2,201,562</u>	
Ending net assets	<u>\$ 2,496,247</u>	<u>\$ 2,534,604</u>	<u>\$ 2,931,052</u>	<u>\$ 396,448</u>

**ARISTOI CLASSICAL ACADEMY, INC.**

**BUDGETARY COMPARISON SCHEDULE (continued)**

**For the Year Ended August 31, August 31, 2016**

**Budget Variances**

In accordance with Module 10, Section 1.7.2.8 of the Financial Accountability System Resource Guide, if the original and final budgeted amounts vary by more than 10 percent of the original budgeted amounts, the charter holder must include a written statement discussing the cause of the variance(s). The Charter School provides the following explanations for each of the variances noted:

Function 23	Less money spent on salaries and benefits
Function 51	Increase in leases, insurance costs and supplies.
Function 53	Increase in contracted maintenance for phone and internet services.
Function 71	Decrease in interest as bond closed in March 2016 instead of beginning of the fiscal year.

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). The Charter School provides the following explanations for each of the variances noted:

Function 13	Decrease in professional development expenses due to staff being able to obtain professional development on site instead of out of state, as planned.
Function 36	Decrease in expenses due to budgeted supplies ordered were not received by August 31, 2016.
Function 52	Decrease in expense due to budgeted security enhancements were not installed prior to August 31, 2016.
Function 71	Decrease in debt service due to school anticipated closing on property at the beginning of the fiscal year instead of March 2016.

**Corrective Action Plan**

The school will carefully review each function category to adhere to the requirements.

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## **COMPLIANCE AND INTERNAL CONTROLS**

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**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, 2016, 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 23, 2017.

**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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas  
January 23, 2017