

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Year Ended August 31, 2017  
with Comparative Totals for 2016**

# ARISTOI CLASSICAL ACADEMY, INC.

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended August 31, 2017

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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, 2017, at a meeting of the governing body of the charter holder on the 22<sup>th</sup> day of January, 2018.

  
\_\_\_\_\_  
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, 2017 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.



Board of Directors  
Aristoi Classical Academy, Inc.

***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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, 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 22, 2018, 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 22, 2018

**GENERAL PURPOSE FINANCIAL STATEMENTS**

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**ARISTOI CLASSICAL ACADEMY, INC.**

**STATEMENTS OF FINANCIAL POSITION**

	<b>August 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,664,821	\$ 967,148
Due from Texas Education Agency	574,118	313,535
Due from other governments	1,582	
Other Receivables	322	
Other Assets	9,700	9,700
Restricted Cash	1,004,351	756,632
Total current assets	3,254,894	2,047,015
Noncurrent Assets:		
Property and Equipment, net	9,323,474	5,475,244
Total noncurrent assets	9,323,474	5,475,244
Total Assets	\$ 12,578,368	\$ 7,522,259
 <b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 655,569	\$ 145,323
Accrued interest payable	203,841	166,392
Payroll deductions and withholdings	76,035	3,872
Accrued salaries payable	147,812	74,605
Total Current Liabilities	1,083,257	390,192
Bonds payable net of discount, issue costs and current portion	7,672,375	4,201,015
Total Liabilities	8,755,632	4,591,207
<b>Net Assets:</b>		
Unrestricted	950,470	788,409
Temporarily Restricted	2,872,266	2,142,643
Total Net Assets	3,822,736	2,931,052
Total Liabilities and Net Assets	\$ 12,578,368	\$ 7,522,259

*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>2017</u>	<u>2016</u>
<b>Revenues</b>				
Local Support:				
Earnings from deposits and investments	\$ 7,206	\$	\$ 7,206	\$ 2,370
Gifts and bequests	31,649		31,649	55,186
Other revenues from local sources	123,206		123,206	56,004
Food Service Activity		75,277	75,277	63,597
Total Local Support	162,061	75,277	237,338	177,157
<b>State Program Revenues:</b>				
Per Capita and Foundation School				
Program Act Revenues		6,075,845	6,075,845	5,013,900
State Program Revenues Distributed by				
Texas Education Agency		84,072	84,072	17,492
Total State Program Revenues		6,159,917	6,159,917	5,031,392
<b>Federal Program Revenues:</b>				
ESEA Title I, Part A		14,161	14,161	21,402
ESEA Title II, Part A		10,524	10,524	9,287
National School Breakfast and Lunch		64,457	64,457	50,042
ESEA Title III, Part A		1,582	1,582	
IDEA Part B, Formula		88,471	88,471	74,069
IDEA Part B, Pre-School		966	966	
Total Federal Program Revenues		180,161	180,161	154,800
<b>Net Assets Released from Restrictions:</b>				
Restrictions satisfied by payments	5,685,732	(5,685,732)		
Total Revenues	5,847,793	729,623	6,577,416	5,363,349

*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, 2017</u>	<u>2016</u>
<b>Expenses</b>				
Instruction	\$ 3,133,922	\$	\$ 3,133,922	\$ 2,484,481
Instructional Resources and Media Services	3,284		3,284	4,971
Curriculum Development and Instructional Staff Development	47,705		47,705	46,651
School Leadership	578,145		578,145	426,863
Guidance, Counseling & Evaluation Services	72,222		72,222	31,797
Health Services	55,006		55,006	33,629
Student (Pupil) Transportation	14,728		14,728	
Food Services	117,983		117,983	138,151
Extracurricular Activities	16,417		16,417	16,043
General Administration	341,730		341,730	475,761
Facilities Maintenance and Operations	734,303		734,303	645,447
Security and Monitoring Services	13,533		13,533	9,092
Data Processing Services	82,193		82,193	105,598
Debt Services	447,664		447,664	197,156
Fund Raising	26,897		26,897	18,219
Total Expenses	<u>5,685,732</u>		<u>5,685,732</u>	<u>4,633,859</u>
 Change in Net Assets	 162,061	 729,623	 891,684	 729,490
Net Assets, beginning of year	<u>788,409</u>	<u>2,142,643</u>	<u>2,931,052</u>	<u>2,201,562</u>
Net Assets, end of year	<u>\$ 950,470</u>	<u>\$ 2,872,266</u>	<u>\$ 3,822,736</u>	<u>\$ 2,931,052</u>

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

**ARISTOI CLASSICAL ACADEMY, INC.**

**STATEMENTS OF CASH FLOWS**

	August 31,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Foundation school program payments	\$ 5,906,665	\$ 4,919,547
Grant payments	87,176	242,782
Other state and local revenue payments	321,088	194,649
Payments to vendors for goods and services rendered	(748,144)	(1,157,286)
Payments to charter school personnel for services rendered	(3,752,907)	(3,141,995)
Interest payments	(388,857)	(19,792)
Net cash provided in operating activities	1,425,021	1,037,905
<b>Cash flows from investing activities:</b>		
Purchase of Land	(1,508)	(3,684,396)
Leasehold Improvements	(43,045)	
Investment in Construction in progress	(3,885,076)	(401,311)
Net cash used in investing activities	(3,929,629)	(4,085,707)
<b>Cash flows from financing activities:</b>		
Bonds Payable issue	3,450,000	4,850,000
Bond issue costs and discount		(659,957)
Net cash provided (used) by financing activities	3,450,000	4,190,043
Net Change in cash and cash equivalents	945,392	1,142,241
Beginning cash and cash equivalents	1,723,780	581,539
Ending cash and cash equivalents	\$ 2,669,172	\$ 1,723,780
Unrestricted cash and cash equivalents	\$ 1,664,821	\$ 967,148
Restricted cash and cash equivalents	1,004,351	756,632
	\$ 2,669,172	\$ 1,723,780
<b>Reconciliation of change in net assets to net cash provided (used) by operating activities:</b>		
Increase (decrease) in net assets	\$ 891,684	\$ 729,490
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	102,759	89,985
(Increase) decrease in:		
Due from Texas Education Agency	(260,583)	(7,560)
Due from other governments	(1,582)	1,189
Other receivables	(322)	
Increase (decrease) in operating liabilities:		
Accounts payable	510,246	38,096
Accrued interest payable	37,449	166,392
Accrued salaries payable and related liabilities	145,370	20,313
Net cash provided by operating activities	\$ 1,425,021	\$ 1,037,905

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

## ARISTOI CLASSICAL ACADEMY, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### **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 11th 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.

On July 1, 2017, a charter amendment to increase the maximum student enrollment from 880 to 1,128 was approved.

#### ***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 CLASSIC 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, 2017, unrestricted net assets totaled \$950,470.

*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, 2017, temporarily restricted net assets totaled \$2,872,266.

*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, 2017, 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.

##### *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.

ARISTOI CLASSIC ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

*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, 2017.

*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.

Note 2 - Capital Assets

Capital assets at August 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 3,802,903	\$ 3,801,395
Building and leasehold improvements	2,325,935	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	4,286,387	401,311
<b>Total Property and Equipment</b>	<u>10,539,900</u>	<u>6,610,270</u>
Less Accumulated Depreciation	<u>(1,216,426)</u>	<u>(1,135,026)</u>
Property and Equipment, Net	<u>\$ 9,323,474</u>	<u>\$ 5,475,244</u>

**ARISTOI CLASSIC ACADEMY, INC.**

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

**Note 2 - Capital Assets (continued)**

Depreciation expense for the fiscal years ended August 31, 2017 and August 31, 2016, was \$81,400 and \$79,013, 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, 2017, follows:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
Aristoi Classical Academy			
New Campus	\$ 4,863,407	\$ 4,286,387	\$ 577,020

**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, 2017, the carrying amount of the Academy's cash deposits was \$1,664,821 and the bank's balance was \$1,737,546. In addition, the carrying amount and the bank balance of the Academy's restricted cash was \$1,004,351. 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, 2017.

Approximately 92% of the Academy's total revenue for fiscal year 2017 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.

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.

**ARISTOI CLASSIC ACADEMY, INC.**

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

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

***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.

***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 2016 and 2017.

	<b>Contribution Rates</b>	
	<b>Plan Fiscal Year</b>	
	<b>2016</b>	<b>2017</b>
Member	7.20%	7.70%
Employer	6.80%	6.80%
Non-Employer Contributing Entity (State)	6.80%	6.80%

**ARISTOI CLASSIC ACADEMY, INC.**

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

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

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

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 are 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	\$2,783,460	\$3,416,208
Member (Employee)	205,678	263,048
Charter School	10,097	11,983
Non-OASDI Surcharge	41,826	51,244

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.

**ARISTOI CLASSIC ACADEMY, INC.**

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

**Note 5 - Health Care Coverage**

During the years ended August 31, 2017 and August 31, 2016, 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 2017. 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**

During the 2017 fiscal year, long-term debt consisted of the following revenue bonds payable:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Education Revenue Bonds, Series 2016 A	\$ 4,750,000	\$ 3,450,000	\$	\$ 8,200,000	\$
Taxable Education Revenue Bond Series 2016 B	100,000			100,000	
Bond issuance costs	(457,622)		14,849	(442,773)	
Bond discount	(191,363)		6,511	(184,852)	
	<u>\$ 4,201,015</u>	<u>\$ 3,450,000</u>	<u>\$ 21,360</u>	<u>\$ 7,672,375</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. In fiscal year 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. During the fiscal year ended August 31, 2017, \$1,095,000 and \$2,355,000 for a total amount of \$3,450,000 were drawn down in Series 2016A bonds. The total draws as of fiscal year 2017 was \$8,300,000.

Series	Original Issue	Interest Rate	Maturity Date	Amount Outstanding
Education Revenue Bond Series 2016 A	\$ 8,200,000	7.50%	September 1, 2047	\$ 8,200,000
Taxable Education Revenue Bond Series 2016 B	100,000	9.00%	September 1, 2019	100,000
	<u>\$ 8,300,000</u>			<u>\$ 8,300,000</u>

The Bond Series 2016A listed above was issued in prior year at a discount and the Academy incurred bond issuance costs. In fiscal year 2017, the bond issuance costs and bond discount balances were \$442,773 and \$184,852, respectively. 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.

Monthly payments for the bond are held by the U.S. Bank (Trustee). The Trustee pays interest due each March 1<sup>st</sup> and September 1<sup>st</sup> to the Issuer.

**ARISTOI CLASSIC 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>
2018	\$	\$ 624,000	\$ 624,000
2019	91,320	620,627	711,947
2020	90,460	612,541	703,001
2021	95,845	605,616	701,461
2022	103,286	598,176	701,462
2023-2027	649,904	2,857,406	3,507,310
2028-2032	944,502	2,562,806	3,507,308
2033-2037	1,372,638	2,134,669	3,507,307
2038-2042	1,994,849	1,512,458	3,507,307
2043-2047	2,957,196	608,567	3,565,763
	<u>\$ 8,300,000</u>	<u>\$ 12,736,866</u>	<u>\$ 21,036,866</u>

During the 2017 fiscal year, the Academy drew down \$3,450,000 of “Qualified Tax Exempt” Education Revenue Bonds Series 2016A. The projected draw down schedule which included draws from prior year 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>
3/17/2016	\$ 4,750,000	\$ 100,000	\$ 4,750,000	\$ 100,000
11/18/2016	1,095,000		5,845,000	100,000
5/26/2017	2,355,000		8,200,000	100,000
9/8/2017	2,780,000		10,980,000	100,000

**Bond Covenants**

During the fiscal year 2017, 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, 2017 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, 2017, 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, 2017	70
August 31, 2018	85
August 31, 2019 and thereafter	90

**ARISTOI CLASSIC 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, 2017 and 2016, consisted of the following:

	<b>2017</b>	<b>2016</b>
State Foundation Aid	\$ 482,715	\$ 313,535
Title I, Part A	4,828	
Title II, Part A	1,214	
Child Nutrition	2,392	
Instructional Materials Allotment	82,969	
	\$ 574,118	\$ 313,535

Amounts due from other governments at August 31, 2017 and 2016, consisted of the following:

	<b>2017</b>	<b>2016</b>
Title III, Part A	\$ 1,582	\$

**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, 2017, and August 31, 2016, totaled \$248,853 and \$155,919, respectively.

The future minimum rental payments required under non-cancellable lease agreements as of August 31, 2017, are as follows:

<b>Year</b>	<b>Amount</b>
2018	\$ 141,924
2019	124,885
2020	123,336
2021	123,336
2022	123,336
Total	\$ 636,817

**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.



**ARISTOI CLASSIC ACADEMY, INC.**

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

**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, 2017, and August 31, 2016, the Charter Holder earned \$6,075,845 and \$5,013,900, respectively, of Per Capita and State Foundation Aid funds (before any possible TEA enrollment and attendance audit).

**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 22, 2018, which is the date the financial statements were available to be issued.

Subsequent to year end, the charter school drew down \$2,780,000 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.

**SUPPLEMENTARY INFORMATION**

ARISTOI CLASSICAL ACADEMY, INC.

SCHEDULES OF EXPENSES

		August 31,	
		2017	2016
	<b>Expenses</b>		
6100	Payroll Costs	\$ 3,898,277	\$ 3,162,308
6200	Professional and Contract Services	714,484	752,241
6300	Supplies and Materials	377,396	292,967
6400	Other Operating Costs	247,911	229,187
6500	Debt	447,664	197,156
	Total Expenses	<u>\$ 5,685,732</u>	<u>\$ 4,633,859</u>

ARISTOI CLASSICAL ACADEMY, INC.

SCHEDULE OF CAPITAL ASSETS

For the Year Ended August 31, 2017

		Ownership Interest		
		Local	State	Federal
1510	Land and improvements	\$	\$ 3,802,903	\$
1520	Building & leasehold improvements		2,325,935	
1531	Vehicles		7,724	
1539	Furniture and equipment	95,085	21,866	
1580	Construction in progress		4,286,387	
	Total Property & equipment	<u>\$ 95,085</u>	<u>\$ 10,444,815</u>	<u>\$</u>

**ARISTOI CLASSICAL ACADEMY, INC.**

**BUDGETARY COMPARISON SCHEDULE**

**For the Year Ended August 31, 2017**

		<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
<b>Revenues</b>					
Local Support:					
5700	Local and intermediate sources	\$ 225,277	\$ 240,277	\$ 237,338	\$ (2,939)
5800	State program revenue	5,612,020	5,612,020	6,159,917	547,897
5900	Federal Program Revenues:	240,161	240,161	180,161	(60,000)
	<b>Total Revenues</b>	<u>6,077,458</u>	<u>6,092,458</u>	<u>6,577,416</u>	<u>484,958</u>
<b>Expenses</b>					
11	Instruction	2,996,745	2,996,745	3,133,922	(137,177)
12	Instructional Resources and Media Services	5,000	5,000	3,284	1,716
13	Curriculum Development and Instructional Staff Development	50,547	50,547	47,705	2,842
23	School Leadership	616,387	616,872	578,145	38,727
31	Guidance, Counseling and Evaluation Services	71,125	71,125	72,222	(1,097)
33	Health Services	68,846	68,846	55,006	13,840
34	Student (Pupil) Transportation	29,000	26,100	14,728	11,372
35	Food Service	126,117	126,117	117,983	8,134
36	Cocurricular/Extracurricular Activities	16,000	16,000	16,417	(417)
41	General Administration	381,381	381,381	341,730	39,651
51	Facilities Maintenance and Operations	732,144	732,144	734,303	(2,159)
52	Security and Monitoring Services	19,350	19,350	13,533	5,817
53	Data Processing Services	80,156	80,156	82,193	(2,037)
71	Debt Service	650,491	585,442	447,664	137,778
81	Fund Raising	42,125	42,125	26,897	15,228
	<b>Total Expenses</b>	<u>5,885,414</u>	<u>5,817,950</u>	<u>5,685,732</u>	<u>132,218</u>
	Change in net assets	192,044	274,508	891,684	617,176
	Beginning net assets	2,931,052	2,931,052	2,931,052	
	<b>Ending net assets</b>	<u>\$ 3,123,096</u>	<u>\$ 3,205,560</u>	<u>\$ 3,822,736</u>	<u>\$ 617,176</u>

**ARISTOI CLASSICAL ACADEMY, INC.**

**BUDGETARY COMPARISON SCHEDULE (continued)**

**For the Year Ended August 31, August 31, 2017**

**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 34	Decrease in expense due to reduced transportation needs.
Function 71	Decrease in debt service costs due to reduction of interest

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 12	Decrease in expenses due to lower spending than anticipated for library supplies.
Function 33	Decrease in expenses due to budgeted supplies ordered were not received by August 31, 2017.
Function 34	Decrease in expense due to reduced transportation needs.
Function 41	Decrease in expenses due to decrease in general administration staff and consulting and legal fees.
Function 52	Decrease in security and monitoring due to security system that was budgeted but not installed by August 31, 2017.
Function 71	Decrease in debt service due to interest related to draw down on bonds that was not due.
Function 81	Decrease in expense due to budgeted marketing tools that were not ordered by August 31, 2017 as originally planned.

**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 OF INDEPENDENT AUDITORS 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, 2017, 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 22, 2018.

**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 22, 2018