

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**Year Ended August 31, 2018
with Comparative Totals for 2017**

ARISTOI CLASSICAL ACADEMY, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended August 31, 2018

Table of Contents

	<u>Page</u>
Certificate of Board	i
Independent Auditors' Report	1
General Purpose Financial Statements:	
Statements of Financial Position	5
Statements of Activities	6
Statements of Cash Flows	8
Notes to the Financial Statements	9
Supplementary Information:	
Schedules of Expenses	22
Schedule of Capital Assets	23
Budgetary Comparison Schedule	24
Compliance and Internal Controls:	
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 <i>Government Auditing Standards</i>	29

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, 2018, at a meeting of the governing body of the charter holder on the 23rd day of January, 2019.

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, 2018, at a meeting of the governing body of the charter holder on the 23rd day of January, 2019.



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, 2018 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, 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, 2019, 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, 2019

GENERAL PURPOSE FINANCIAL STATEMENTS

(This page intentionally left blank)

ARISTOI CLASSICAL ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

Assets	August 31,	
	2018	2017
Current Assets:		
Cash and Cash Equivalents	\$ 2,454,266	\$ 1,664,821
Due from Texas Education Agency	588,947	574,118
Due from other governments		1,582
Other Receivables	322	322
Other Assets	9,700	9,700
Restricted Cash	1,667,982	1,004,351
Total current assets	4,721,217	3,254,894
Noncurrent Assets:		
Property and Equipment, net	10,789,986	9,323,474
Total noncurrent assets	10,789,986	9,323,474
Total Assets	\$ 15,511,203	\$ 12,578,368
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 51,326	\$ 655,569
Accrued interest payable	411,750	203,841
Payroll deductions and withholdings	4,454	76,035
Accrued salaries payable	181,970	147,812
Total Current Liabilities	649,500	1,083,257
Bonds payable net of discount, issue costs and current portion	10,374,601	7,672,375
Total Liabilities	11,024,101	8,755,632
Net Assets:		
Unrestricted	1,248,102	950,470
Temporarily Restricted	3,239,000	2,872,266
Total Net Assets	4,487,102	3,822,736
Total Liabilities and Net Assets	\$ 15,511,203	\$ 12,578,368

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

ARISTOI CLASSICAL ACADEMY, INC.

STATEMENTS OF ACTIVITIES

	Unrestricted	Temporarily Restricted	August 31,	
			2018	2017
Revenues				
Local Support:				
Earnings from deposits and investments	\$ 30,674	\$	\$ 30,674	\$ 7,206
Gifts and bequests	63,037		63,037	31,649
Other revenues from local sources	203,921		203,921	123,206
Food Service Activity		108,944	108,944	75,277
Total Local Support	297,632	108,944	406,576	237,338
State Program Revenues:				
Per Capita and Foundation School Program Act Revenues		6,951,095	6,951,095	6,075,845
State Program Revenues Distributed by Texas Education Agency		49,371	49,371	84,072
Total State Program Revenues		7,000,466	7,000,466	6,159,917
Federal Program Revenues:				
ESEA Title I, Part A		14,184	14,184	14,161
ESEA Title II, Part A		7,042	7,042	10,524
National School Breakfast and Lunch		94,555	94,555	64,457
ESEA Title III, Part A		307	307	1,582
IDEA Part B, Formula		111,213	111,213	88,471
IDEA Part B, Pre-School		1,127	1,127	966
Title IV, Part A, Subpart 1		10,000	10,000	
Total Federal Program Revenues		238,428	238,428	180,161
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	6,981,104	(6,981,104)		
Total Revenues	7,278,736	366,734	7,645,470	6,577,416

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

ARISTOI CLASSICAL ACADEMY, INC.

STATEMENTS OF ACTIVITIES (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>August 31,</u>	
			<u>2018</u>	<u>2017</u>
Expenses				
Instruction	\$ 3,453,883	\$	\$ 3,453,883	\$ 3,133,922
Instructional Resources and Media Services	4,552		4,552	3,284
Curriculum Development and Instructional Staff Development	57,542		57,542	47,705
Instructional Leadership	55,575		55,575	
School Leadership	560,483		560,483	578,145
Guidance, Counseling & Evaluation Services	80,396		80,396	72,222
Health Services	66,303		66,303	55,006
Student (Pupil) Transportation	7,088		7,088	14,728
Food Services	150,968		150,968	117,983
Extracurricular Activities	28,169		28,169	16,417
General Administration	312,273		312,273	341,730
Facilities Maintenance and Operations	1,150,143		1,150,143	734,303
Security and Monitoring Services	12,341		12,341	13,533
Data Processing Services	91,547		91,547	82,193
Debt Services	915,678		915,678	447,664
Fund Raising	34,163		34,163	26,897
Total Expenses	<u>6,981,104</u>		<u>6,981,104</u>	<u>5,685,732</u>
Change in Net Assets	297,632	366,734	664,366	891,684
Net Assets, beginning of year	<u>950,470</u>	<u>2,872,266</u>	<u>3,822,736</u>	<u>2,931,052</u>
Net Assets, end of year	<u>\$ 1,248,102</u>	<u>\$ 3,239,000</u>	<u>\$ 4,487,102</u>	<u>\$ 3,822,736</u>

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

ARISTOI CLASSICAL ACADEMY, INC.

STATEMENTS OF CASH FLOWS

	August 31,	
	2018	2017
Cash flows from operating activities:		
Foundation school program payments	\$ 6,852,332	\$ 5,906,665
Grant payments	323,944	87,176
Other state and local revenue payments	455,947	321,088
Payments to vendors for goods and services rendered	(2,159,164)	(748,144)
Payments to charter school personnel for services rendered	(4,248,220)	(3,752,907)
Interest payments	(685,544)	(388,857)
Net cash provided in operating activities	<u>539,295</u>	<u>1,425,021</u>
Cash flows from investing activities:		
Purchase of Land	(1,153)	(1,508)
Building and Leasehold Improvements	(1,653,460)	(43,045)
Investment in Construction in progress		(3,885,076)
Purchase of Equipment	(111,606)	
Net cash used in investing activities	<u>(1,766,219)</u>	<u>(3,929,629)</u>
Cash flows from financing activities:		
Bonds Payable issue	2,780,000	3,450,000
Principal payments on long-term debt	(100,000)	
Net cash provided (used) by financing activities	<u>2,680,000</u>	<u>3,450,000</u>
Net Change in cash and cash equivalents	1,453,076	945,392
Beginning cash and cash equivalents	2,669,172	1,723,780
Ending cash and cash equivalents	<u>\$ 4,122,248</u>	<u>\$ 2,669,172</u>
Unrestricted cash and cash equivalents	\$ 2,454,266	\$ 1,664,821
Restricted cash and cash equivalents	<u>1,667,982</u>	<u>1,004,351</u>
	<u>\$ 4,122,248</u>	<u>\$ 2,669,172</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Increase (decrease) in net assets	\$ 664,366	\$ 891,684
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	321,933	102,759
(Increase) decrease in:		
Due from Texas Education Agency	(14,829)	(260,583)
Due from other governments	1,582	(1,582)
Other receivables		(322)
Increase (decrease) in operating liabilities:		
Accounts payable	(604,243)	510,246
Accrued interest payable	207,909	37,449
Accrued salaries payable and related liabilities	(37,423)	145,370
Net cash provided by operating activities	<u>\$ 539,295</u>	<u>\$ 1,425,021</u>

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 12th 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 CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

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, 2018, unrestricted net assets totaled \$1,248,102.

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, 2018, temporarily restricted net assets totaled \$3,239,000.

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, 2018, 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 CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

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, 2018.

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, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,804,056	\$ 3,802,903
Building and leasehold improvements	8,265,782	2,325,935
Furniture and playground equipment	184,383	78,671
Vehicles	7,724	7,724
Computer and Office Equipment	44,174	38,280
Construction in progress		4,286,387
Total Property and Equipment	<u>12,306,119</u>	<u>10,539,900</u>
Less Accumulated Depreciation	<u>(1,516,133)</u>	<u>(1,216,426)</u>
Property and Equipment, Net	<u>\$ 10,789,986</u>	<u>\$ 9,323,474</u>

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Capital Assets (continued)

Depreciation expense for the fiscal years ended August 31, 2018 and August 31, 2017, was \$299,708 and \$81,400, 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.

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, 2018, the carrying amount of the Academy's cash deposits was \$2,454,266, and the bank's balance was \$2,536,987. In addition, the carrying amount and the bank balance of the Academy's restricted cash was \$1,667,982. 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, 2018.

Approximately 91% of the Academy's total revenue for fiscal year 2018 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.

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.

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

Note 4 - Defined Benefit Pension Plans (continued)

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 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2018. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

	Contribution Rates	
	Plan Fiscal Year	
	2017	2018
Member	7.70%	7.70%
Employer	6.80%	6.80%
Non-Employer Contributing Entity (State)	6.80%	6.80%

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

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:

	Contributions Required and Made During the Measurement Year	TRS Contributions Made During the Fiscal Year
Total Covered Payroll	\$3,416,208	\$3,735,116
Member (Employee)	263,048	287,606
Charter School	11,983	12,104
Non-OASDI Surcharge	51,244	56,031

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 CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Defined Other Post-Employment Benefit Plan

A. Plan Description

The Academy participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

Similar to the TRS Pension Plan discussed in Note 4, charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer OPEB plans. Assets contributed to a multi-employer OPEB plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The TRS Comprehensive Annual Financial Report available dated August 31, 2017.

TRS Care Other Post- Employment Benefits (OPEB)	Total Plan Assets	TRS-Care Plan Fiduciary Net Position	Total OPEB Liability	Net OPEB Liability	Percent Funded
2017	\$ 526,398,000	\$ 399,536,000	\$ 43,885,785,000	\$ 43,486,249,000	0.9%

B. OPEB Plan Fiduciary Net Position

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

C. Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

ARISTOI CLASSICAL ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Defined Other Post-Employment Benefit Plan (continued)

C. Benefits Provided (continued)

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

TRS-Care Plan Premium Rates

	<u>TRS-Care 1</u>	<u>TRS-Care 2</u>	<u>TRS-Care 3</u>
	<u>Basic Plan</u>	<u>Optional Plan</u>	<u>Optional Plan</u>
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only	28	62	82

*or surviving spouse

D. Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% in fiscal year 2017 and 1.25% in fiscal year 2018 of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Employers contribute at a rate of .55%

Section 1575.204 establishes an employer contribution rate of not less than 0.25 % or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act.

In fiscal year 2018, the Academy contributed a total of \$28,758 of which, \$743 was for federally funded employees. Employees contributed a total of \$24,278. Covered payroll for TRS-Care for fiscal year 2018 was \$3,735,116.

ARISTOI CLASSIC ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Health Care Coverage

During the years ended August 31, 2018 and August 31, 2017, 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 2018. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 7 - Bonds Payable

During the 2018 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	\$ 8,200,000	\$ 2,780,000	\$	\$ 10,980,000	\$
Taxable Education Revenue Bond Series 2016 B	100,000		(100,000)		
Bond issuance costs	(442,773)		14,850	(427,923)	
Bond discount	(184,852)		7,376	(177,476)	
	<u>\$ 7,672,375</u>	<u>\$ 2,780,000</u>	<u>\$ (77,774)</u>	<u>\$ 10,374,601</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. In fiscal year 2017, \$1,095,000 and \$2,355,000 for a total amount of \$3,450,000 were drawn down in Series 2016A bonds. During the fiscal year ended August 31, 2018, \$2,780,000 was drawn down in Series 2016A bonds. The total draws as of fiscal year 2018 was \$10,980,000. Taxable Education Revenue Bond Series 2016B was paid off in fiscal year 2018.

<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	\$ 10,980,000	7.50%	September 1, 2047	\$ 10,980,000
	<u>\$ 10,980,000</u>			<u>\$ 10,980,000</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 2018, the bond issuance costs and bond discount balances were \$427,923 and \$177,476, 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 1st and September 1st to the Issuer.

ARISTOI CLASSIC ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 - 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>
2019		823,500	823,500
2020	125,000	823,500	948,500
2021	135,000	818,813	953,813
2022	145,000	809,063	954,063
2023	155,000	798,563	953,563
2024-2028	975,000	3,806,441	4,781,441
2029-2033	1,395,000	3,396,375	4,791,375
2034-2038	2,005,000	2,809,688	4,814,688
2039-2043	2,870,000	1,967,625	4,837,625
2044-2048	3,175,000	760,313	3,935,313
	<u>\$ 10,980,000</u>	<u>\$ 16,813,881</u>	<u>\$ 27,793,881</u>

During the 2018 fiscal year, the Academy drew down \$2,780,000 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 2018, 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, 2018 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, 2018, 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 8 - Due from State and Other Governments

Amounts due from the Texas Education Agency at August 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
State Foundation Aid	\$ 581,478	\$ 482,715
Title I, Part A	1,624	4,828
Title II, Part A	676	1,214
Child Nutrition	4,949	2,392
Title IV, Part A, Subpart 1	220	
Instructional Materials Allotment		82,969
	<u>\$ 588,947</u>	<u>\$ 574,118</u>

Note 9 - Operating Leases

The Academy leases property, modular portable classrooms and office equipment. The related operating lease expense for the fiscal year ended August 31, 2018, and August 31, 2017, totaled \$404,977 and \$248,853, respectively.

The future minimum rental payments required under non-cancellable lease agreements as of August 31, 2018, are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 397,141
2020	387,612
2021	370,008
2022	370,008
Total	<u>\$ 1,524,769</u>

Note 10 - 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 11 - 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, 2018, and August 31, 2017, the Charter Holder earned \$6,951,095 and \$6,075,845, respectively, of Per Capita and State Foundation Aid funds (before any possible TEA enrollment and attendance audit).

Note 12 - Charter Holder Operations

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

Note 13 - 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 14 - Management's Review of Subsequent Events

Management has evaluated subsequent events through January 23, 2019, which is the date the financial statements were available to be issued.

On September 18, 2018, the Academy purchased one of the modular leased buildings in the amount of \$542,014. The purchase was approved by the Board of Directors on August 27, 2018. The transfer of ownership of modular buildings to the Academy in fiscal year 2019 will reduce the future minimum payments related to operating leases in the amount of \$123,336 each year.

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,	
Expenses		2018	2017
6100	Payroll Costs	\$ 4,210,797	\$ 3,898,277
6200	Professional and Contract Services	926,120	714,484
6300	Supplies and Materials	442,183	377,396
6400	Other Operating Costs	486,326	247,911
6500	Debt	915,678	447,664
	Total Expenses	<u>\$ 6,981,104</u>	<u>\$ 5,685,732</u>

ARISTOI CLASSICAL ACADEMY, INC.

SCHEDULE OF CAPITAL ASSETS

For the Year Ended August 31, 2018

		Ownership Interest		
		Local	State	Federal
1510	Land and improvements	\$	\$ 3,804,056	\$
1520	Building & leasehold improvements		8,265,782	
1531	Vehicles		7,724	
1539	Furniture and equipment	95,085	133,472	
	Total Property & equipment	<u>\$ 95,085</u>	<u>\$ 12,211,034</u>	<u>\$</u>

ARISTOI CLASSICAL ACADEMY, INC.

BUDGETARY COMPARISON SCHEDULE

For the Year Ended August 31, 2018

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
Revenues				
Local Support:				
5700	\$ 305,944	\$ 325,644	\$ 406,576	\$ 80,932
5800	6,570,198	6,852,198	7,000,466	148,268
5900	293,428	299,928	238,428	(61,500)
Total Revenues	<u>7,169,570</u>	<u>7,477,770</u>	<u>7,645,470</u>	<u>167,700</u>
Expenses				
11	3,461,812	3,661,812	3,453,883	207,929
12	5,000	5,000	4,552	448
13	67,146	67,146	57,542	9,604
21	59,581	59,581	55,575	4,006
23	604,610	604,610	560,483	44,127
31	77,848	77,848	80,396	(2,548)
33	72,846	72,846	66,303	6,543
34	10,000	9,000	7,088	1,912
35	138,928	138,928	150,968	(12,040)
36	30,000	30,000	28,169	1,831
41	343,937	343,937	312,273	31,664
51	945,923	1,040,515	1,150,143	(109,628)
52	17,454	15,709	12,341	3,368
53	94,008	94,008	91,547	2,461
71	848,250	933,075	915,678	17,397
81	41,944	41,944	34,163	7,781
Total Expenses	<u>6,819,287</u>	<u>7,195,959</u>	<u>6,981,104</u>	<u>214,855</u>
Change in net assets	350,283	281,811	664,366	382,555
Beginning net assets	<u>3,822,736</u>	<u>3,822,736</u>	<u>3,822,736</u>	
Ending net assets	<u>\$ 4,173,019</u>	<u>\$ 4,104,547</u>	<u>\$ 4,487,102</u>	<u>\$ 382,555</u>

ARISTOI CLASSICAL ACADEMY, INC.

BUDGETARY COMPARISON SCHEDULE (continued)

For the Year Ended August 31, 2018

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 51	Increase in facilities maintenance and operations due to expenses from operating a new campus and higher depreciation expense
Function 71	Increase in debt service costs due to higher interest expense for the bonds.

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:

Object 5700	Increase in local and intermediate sources due to food service activity as a result of increase in meals served and ala carte sales
Function 51	Increase in facilities maintenance and operations due to expenses from operating a new campus and higher depreciation expense.

Corrective Action Plan

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

(This page intentionally left blank)

COMPLIANCE AND INTERNAL CONTROLS

(This page intentionally left blank.)

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, 2018, 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, 2019.

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, 2019