

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Year Ended August 31, 2019  
with Comparative Totals for 2018**



# ARISTOI CLASSICAL ACADEMY, INC.

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended August 31, 2019

### 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	24
Schedule of Capital Assets	25
Budgetary Comparison Schedule	26
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>	31



**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 Annual Financial and Compliance Report of Aristoi Classical Academy was reviewed and  approved  disapproved for the year ended August 31, 2019, at a meeting of the governing body of said charter school on the 13<sup>th</sup> day of January 2020.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President



## 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, 2019 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, 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 13, 2020, 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 13, 2020



**GENERAL PURPOSE FINANCIAL STATEMENTS**

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**ARISTOI CLASSICAL ACADEMY, INC.**

**STATEMENTS OF FINANCIAL POSITION**

	<b>August 31,</b>	
<b>Assets</b>	<b>2019</b>	<b>2018</b>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 2,918,759	\$ 2,454,266
Due from Texas Education Agency	851,026	588,947
Other Receivables	322	322
Other Assets	9,700	9,700
Restricted Cash	1,440,179	1,667,982
Total current assets	5,219,986	4,721,217
<b>Noncurrent Assets:</b>		
Property and Equipment, net	11,278,902	10,789,986
Total noncurrent assets	11,278,902	10,789,986
<b>Total Assets</b>	<b>\$ 16,498,888</b>	<b>\$ 15,511,203</b>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 6,942	\$ 51,326
Accrued interest payable	411,750	411,750
Payroll deductions and withholdings	7,107	4,454
Accrued salaries payable	199,127	181,970
Total Current Liabilities	624,926	649,500
Bonds payable net of discount, issue costs and current portion	10,395,672	10,374,601
Total Liabilities	11,020,598	11,024,101
<b>Net Assets:</b>		
Without donor restrictions	1,609,394	1,248,102
With donor restrictions	3,868,896	3,239,000
Total Net Assets	5,478,290	4,487,102
<b>Total Liabilities and Net Assets</b>	<b>\$ 16,498,888</b>	<b>\$ 15,511,203</b>

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

**ARISTOI CLASSICAL ACADEMY, INC.**

**STATEMENTS OF ACTIVITIES**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>August 31,</b>	
			<b>2019</b>	<b>2018</b>
<b>Revenues</b>				
Local Support:				
Earnings from deposits and investments	\$ 42,128	\$	\$ 42,128	\$ 30,674
Gifts and bequests	106,475		106,475	63,037
Other revenues from local sources	212,689		212,689	203,921
Food Service Activity		111,059	111,059	108,944
Total Local Support	361,292	111,059	472,351	406,576
<b>State Program Revenues:</b>				
Per Capita and Foundation School Program Act Revenues		7,980,914	7,980,914	6,951,095
State Program Revenues Distributed by Texas Education Agency		31,054	31,054	49,371
Total State Program Revenues		8,011,968	8,011,968	7,000,466
<b>Federal Program Revenues:</b>				
ESEA Title I, Part A		49,206	49,206	14,184
ESEA Title II, Part A		3,088	3,088	7,042
National School Breakfast and Lunch		89,955	89,955	94,555
ESEA Title III, Part A		1,752	1,752	307
IDEA Part B, Formula		117,874	117,874	111,213
IDEA Part B, Pre-School		696	696	1,127
Title IV, Part A, Subpart 1		35,019	35,019	10,000
Total Federal Program Revenues		297,590	297,590	238,428
<b>Net Assets Released from Restrictions:</b>				
Restrictions satisfied by payments	7,790,721	(7,790,721)		
Total Revenues	8,152,013	629,896	8,781,909	7,645,470

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

**ARISTOI CLASSICAL ACADEMY, INC.**

**STATEMENTS OF ACTIVITIES (continued)**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>August 31,</b>	
			<b>2019</b>	<b>2018</b>
<b>Expenses</b>				
Instruction	\$ 4,148,067	\$	\$ 4,148,067	\$ 3,453,883
Instructional Resources and Media Services	4,498		4,498	4,552
Curriculum Development and Instructional Staff Development	62,097		62,097	57,542
Instructional Leadership	52,926		52,926	55,575
School Leadership	606,482		606,482	560,483
Guidance, Counseling & Evaluation Services	75,343		75,343	80,396
Health Services	67,929		67,929	66,303
Student (Pupil) Transportation	3,900		3,900	7,088
Food Services	208,663		208,663	150,968
Extracurricular Activities	47,351		47,351	28,169
General Administration	344,338		344,338	312,273
Facilities Maintenance and Operations	1,088,636		1,088,636	1,150,143
Security and Monitoring Services	7,267		7,267	12,341
Data Processing Services	92,461		92,461	91,547
Debt Services	847,621		847,621	915,678
Fund Raising	133,142		133,142	34,163
Total Expenses	<u>7,790,721</u>		<u>7,790,721</u>	<u>6,981,104</u>
Change in Net Assets	361,292	629,896	991,188	664,366
Net Assets, beginning of year	<u>1,248,102</u>	<u>3,239,000</u>	<u>4,487,102</u>	<u>3,822,736</u>
Net Assets, end of year	<u>\$ 1,609,394</u>	<u>\$ 3,868,896</u>	<u>\$ 5,478,290</u>	<u>\$ 4,487,102</u>

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

**ARISTOI CLASSICAL ACADEMY, INC.**

**STATEMENTS OF CASH FLOWS**

	<b>August 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Foundation school program payments	\$ 7,777,295	\$ 6,852,332
Grant payments	239,130	323,944
Other state and local revenue payments	503,405	455,947
Payments to vendors for goods and services rendered	(1,761,167)	(2,159,164)
Payments to charter school personnel for services rendered	(4,868,490)	(4,248,220)
Interest payments	(826,550)	(685,544)
Net cash provided in operating activities	<u>1,063,623</u>	<u>539,295</u>
<b>Cash flows from investing activities:</b>		
Purchase of Land	(1,700)	(1,153)
Building and Leasehold Improvements	(803,596)	(1,653,460)
Purchase of Equipment	(21,637)	(111,606)
Net cash used in investing activities	<u>(826,933)</u>	<u>(1,766,219)</u>
<b>Cash flows from financing activities:</b>		
Bonds Payable issue		2,780,000
Principal payments on long-term debt		(100,000)
Net cash provided (used) by financing activities		<u>2,680,000</u>
 Net Change in cash and cash equivalents	 236,690	 1,453,076
Beginning cash and cash equivalents	<u>4,122,248</u>	<u>2,669,172</u>
Ending cash and cash equivalents	<u>\$ 4,358,938</u>	<u>\$ 4,122,248</u>
 Unrestricted cash and cash equivalents	 \$ 2,918,759	 \$ 2,454,266
Restricted cash and cash equivalents	<u>1,440,179</u>	<u>1,667,982</u>
	<u>\$ 4,358,938</u>	<u>\$ 4,122,248</u>
<b>Reconciliation of change in net assets to net cash provided (used) by operating activities:</b>		
Increase (decrease) in net assets	\$ 991,188	\$ 664,366
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	359,087	321,933
(Increase) decrease in:		
Due from Texas Education Agency	(262,079)	(14,829)
Due from other governments		1,582
Increase (decrease) in operating liabilities:		
Accounts payable	(44,383)	(604,243)
Accrued interest payable		207,909
Accrued salaries payable and related liabilities	19,810	(37,423)
Net cash provided by operating activities	<u>\$ 1,063,623</u>	<u>\$ 539,295</u>

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

## ARISTOI CLASSIC 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.

Effective July 1, 2019, a charter amendment for purposes of High-Quality Campus Designation was approved. A new charter school campus under its existing open-enrollment charter is called Aristoi Classical Academy-Cypress serving students in kindergarten through twelve (12) grade.

**ARISTOI CLASSIC ACADEMY, INC.**

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

**Note 1 - Summary of Significant Accounting Policies (continued)**

***New Accounting Pronouncement***

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

The Academy adopted the ASU on September 1, 2018 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. However, there is no adjustment necessary to prior year reported total changes in net assets or net assets as a result of the adoption.

***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.

***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, 2019.

***Prepaid Expenses***

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

***Net Assets***

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as either without donor restrictions or with donor restrictions.

*Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. As of August 31, 2019, net assets without donor restrictions totaled \$1,609,394.

*Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of August 31, 2019, net assets with donor restrictions totaled \$3,868,896.

In accordance with state law, a charter holder is entitled to receive state aid for the charter school based on student attendance; however, before the charter holder may reclassify state aid from net assets with donor restrictions to net assets without donor restrictions, it must meet a two part test.

1. First, the charter school must demonstrate that it expended state aid for the benefit of its students.
2. Second, the charter school must expend state aid consistent with TEC, §45.105(c).

As described in Note 11, the majority of Academy's revenue is comprised of state aid from the Texas Education Agency.

## ARISTOI CLASSIC ACADEMY, INC.

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### Note 1 - Summary of Significant Accounting Policies (continued)

##### *Functional Expenses*

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. The Texas Education Agency mandates a specific account coding that requires open enrollment charter schools to record expenses to a unique combination of function and object. Generally, the Academy records its expenses based on direct allocation by assigning each expense to a functional category based on direct usage. See Note 13 for more information.

##### *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, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,805,756	\$ 3,804,056
Building and leasehold improvements	9,069,378	8,265,782
Furniture and playground equipment	184,383	184,383
Vehicles	7,724	7,724
Computer and Office Equipment	65,810	44,174
<b>Total Property and Equipment</b>	<u>13,133,051</u>	<u>12,306,119</u>
Less Accumulated Depreciation	<u>(1,854,149)</u>	<u>(1,516,133)</u>
Property and Equipment, Net	<u>\$ 11,278,902</u>	<u>\$ 10,789,986</u>

Depreciation expense for the fiscal years ended August 31, 2019 and August 31, 2018, was \$338,016 and \$299,708, 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.

**ARISTOI CLASSIC ACADEMY, INC.**

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

**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, 2019, the carrying amount of the Academy's cash deposits was \$2,918,759, and the bank's balance was \$3,019,326. In addition, the carrying amount and the bank balance of the Academy's restricted cash was \$1,440,179. 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, 2019.

Approximately 91% of the Academy's total revenue for fiscal year 2019 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 contributes to the Teacher Retirement System of Texas ("TRS"), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers the retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas.

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223- 8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications Heading.

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 plans. Assets contributed to a multi-employer 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, 2018 and August 31, 2019 indicated the following:

<b>TRS Pension Fund</b>	<b>TRS Plan Fiduciary Total Plan Assets</b>	<b>TRS Plan Fiduciary Net Position</b>	<b>Total Pension Liability</b>	<b>Net Pension Liability</b>	<b>Percent Funded</b>
2018	\$ 176,942,453,923	\$154,568,901,833	\$ 209,611,328,793	\$ 55,042,426,960	73.74%
2017	165,379,342,000	147,361,922,120	179,336,534,819	31,974,612,699	82.17%
2016	152,925,647,000	134,008,637,473	171,797,150,487	37,788,513,014	78.00%

**ARISTOI CLASSIC ACADEMY, INC.**

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

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

***B. Funding Policy***

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 85<sup>th</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same. The member contribution rate for 2019 and 2018 was 7.70%. Employer and state contributions were 6.80% for both 2019 and 2018.

	<b>Contribution Rates</b>	
	<b>Plan Fiscal Year</b>	
	<b>2018</b>	<b>2019</b>
	<hr/>	<hr/>
Member	7.70%	7.70%
Employer	6.80%	6.80%
Non-Employer Contributing Entity (State)	6.80%	6.80%

The Academy's employee contributions to the system for the year ended August 31, 2019 and August 31, 2018 were \$34,311 and \$28,758, respectively and were equal to the required contributions for the year. Total covered payroll for 2019 and 2018 was \$4,410,989 and \$3,735,116, respectively. Amounts paid as Non-OASDI for 2019 and 2018 were \$66,149 and \$56,031, respectively.

	<b>Contributions Required and Made During the Measurement Year</b>	<b>TRS Contributions Made During the Fiscal Year</b>
	<hr/>	<hr/>
Total Covered Payroll	\$3,735,116	\$4,410,989
Member (Employee)	287,606	339,566
Charter School	12,104	20,827
Non-OASDI Surcharge	56,031	66,149

**ARISTOI CLASSIC ACADEMY, INC.**

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

**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 C, 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, 2018.

<b>TRS Care Other Post- Employment Benefits (OPEB)</b>	<b>Total Plan Assets</b>	<b>TRS-Care Plan Fiduciary Net Position</b>	<b>Total OPEB Liability</b>	<b>Net OPEB Liability</b>	<b>Percent Funded</b>
2018	\$ 1,001,649,953	\$ 798,574,633	\$ 50,729,490,103	\$ 49,930,915,470	1.57%
2017	526,397,969	399,536,000	43,885,785,000	43,486,249,000	0.92%

**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.

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 CLASSIC ACADEMY, INC.**

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

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

**C. Benefits Provided**

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 a retiree with and without Medicare coverage.

<b>TRS-Care Monthly for Retirees</b>				
Effective January 1, 2018 - December 31, 2018				
	<b>Medicare</b>		<b>Non-Medicare</b>	
Retiree or Surviving Spouse	\$	135	\$	200
Retiree and Spouse		529		689
Retiree or Surviving Spouse and Children		468		408
Retiree and Family		1,020		999

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.

<b>TRS-Care Plan Premium Rates</b>			
	<b>TRS-Care 1 Basic Plan</b>	<b>TRS-Care 2 Optional Plan</b>	<b>TRS-Care 3 Optional Plan</b>
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 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent 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. The following table shows contributions to the TRS-Care plan by type of contributor.

**ARISTOI CLASSIC ACADEMY, INC.**

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

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

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

	Contribution Rates	
	2019	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.00%
Employers	0.75%	0.55%
Federal/Private Funding remitted by Employers	1.25%	1.00%

In fiscal year 2019, the Academy contributed a total of \$34,311 of which, \$1,243 was for federally funded employees. Employees contributed a total of \$28,662. Covered payroll for TRS-Care for fiscal year 2019 was \$4,410,989. In fiscal year 2018, the Academy contributed \$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.

**Note 6 - Health Care Coverage**

During the years ended August 31, 2019 and August 31, 2018, 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 2019. 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 2019 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	\$ 10,980,000	\$	\$	\$ 10,980,000	\$
Bond issuance costs	(427,923)		14,849	(413,074)	
Bond discount	(177,476)		6,222	(171,254)	
	\$ 10,374,601	\$	\$ 21,071	\$ 10,395,672	\$

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. In fiscal year 2018, \$2,780,000 was drawn down in Series 2016A bonds. No draws were made during fiscal year end August 31, 2019. The total revenue bonds payable as of fiscal year 2019 was \$10,980,000. Taxable Education Revenue Bond Series 2016B was paid off in fiscal year 2018.

**ARISTOI CLASSIC ACADEMY, INC.**

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

**Note 7 - Bonds Payable (continued)**

<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 2019, the bond issuance costs and bond discount balances were \$413,074 and \$171,254, 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.

Bond payment requirements to maturity are as follows:

<u>Year Ending August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$	\$ 823,500	\$ 823,500
2021	125,000	818,813	943,813
2022	135,000	809,063	944,063
2023	145,000	798,563	943,563
2024	155,000	787,313	942,313
2025-2029	975,000	3,735,941	4,710,941
2030-2034	1,395,000	3,295,313	4,690,313
2035-2039	2,005,000	2,664,563	4,669,563
2040-2044	2,870,000	1,759,875	4,629,875
2045-2047	3,175,000	497,438	3,672,438
	<u>\$ 10,980,000</u>	<u>\$ 15,990,382</u>	<u>\$ 26,970,382</u>

During the 2019 fiscal year, the Academy did not have any draws. 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>
3/17/2016	\$ 4,750,000	\$ 100,000	\$ 4,750,000
11/18/2016	1,095,000		5,845,000
5/26/2017	2,355,000		8,200,000
9/8/2017	2,780,000		10,980,000



**ARISTOI CLASSIC ACADEMY, INC.**

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

**Note 7 - Bonds Payable (continued)**

**Bond Covenants**

During the fiscal year 2019, 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, 2019 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, 2019, 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

**Note 8 - Due from State and Other Governments**

Amounts due from the Texas Education Agency at August 31, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
State Foundation Aid	\$ 785,097	\$ 581,478
Title I, Part A	27,495	1,624
Title II, Part A		676
Child Nutrition	6,012	4,949
Title IV, Part A, Subpart 1	2,402	220
Instructional Materials Allotment	30,020	
	<u>\$ 851,026</u>	<u>\$ 588,947</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, 2019, and August 31, 2018, totaled \$286,872 and \$404,977, respectively.

The future minimum rental payments required under non-cancellable lease agreements as of August 31, 2019, are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 269,052
2021	251,448
2022	247,070
Total	<u>\$ 767,570</u>

**ARISTOI CLASSIC ACADEMY, INC.**

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

**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.

**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, 2019, and August 31, 2018, the Charter Holder earned \$7,975,031 and \$6,951,095, respectively, of Per Capita and State Foundation Aid funds (before any possible TEA enrollment and attendance audit).

**Note 12 - Net Assets With Donor Restrictions**

Net assets with donor restrictions as of August 31, 2019 and 2018 are as follows:

	<u>As of August 31, 2019</u>	<u>As of August 31, 2018</u>
Federal Funds	\$ 69,247	\$ 75,863
State Funds	<u>3,799,649</u>	<u>3,163,137</u>
Total With Donor Restrictions	<u>\$ 3,868,896</u>	<u>\$ 3,239,000</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>For the Year Ended August 31, 2019</u>	<u>For the Year Ended August 31, 2018</u>
State Funds	\$ 7,374,421	\$ 6,686,265
Federal Funds	<u>416,300</u>	<u>294,839</u>
Total Restrictions released	<u>\$ 7,790,721</u>	<u>\$ 6,981,104</u>

**ARISTOI CLASSIC ACADEMY, INC.**

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

**Note 13 – Functional Expenses**

The Academy’s expenses are coded directly to the functional category as established by the Texas Education Agency. Below expenses are reflected by functional category and natural classification or object class.

Expense by Functional Category		Expenses by Object Class					Total
		Payroll Costs	Contracted Services	Supplies and Materials	Other Operating Costs	Debt (Interest and fees)	
11	Instruction	\$ 3,545,036	\$ 284,993	\$ 291,514	\$ 26,524	\$ -	\$ 4,148,067
12	Instructional resources and media services	-	-	4,498	-	-	4,498
13	Curriculum development and instructional staff development	23,620	12,680	1,275	24,522	-	62,097
21	Instructional leadership	52,926	-	-	-	-	52,926
23	School leadership	581,804	1,974	16,637	6,067	-	606,482
31	Guidance, counseling and evaluation services	68,545	5,502	1,296	-	-	75,343
33	Health services	59,745	35	8,149	-	-	67,929
34	Student Transportation	-	7	90	3,803	-	3,900
35	Food service	116,498	434	90,807	924	-	208,663
36	Cocurricular/Extracurricular activities	6,941	892	16,638	22,880	-	47,351
41	General administration	248,026	73,468	6,409	16,435	-	344,338
51	Plant maintenance and operations	60,010	571,695	38,634	418,297	-	1,088,636
52	Security and monitoring services	-	6,019	1,248	-	-	7,267
53	Data processing services	32,986	26,245	33,230	-	-	92,461
71	Debt service	-	-	-	-	847,621	847,621
81	Fund Raising	92,163	22,229	10,622	8,128	-	133,142
		<u>\$ 4,888,300</u>	<u>\$ 1,006,173</u>	<u>\$ 521,047</u>	<u>\$ 527,580</u>	<u>\$ 847,621</u>	<u>\$ 7,790,721</u>

**Note 14 – Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

Cash and cash equivalents	\$ 2,915,441
Receivables	785,419
Total	<u>\$ 3,700,860</u>

Per the Texas Education Agency, Foundation School Program revenues should be classified as revenue with donor restrictions. However, the funds do not have a time restriction, but must be used for education purposes in accordance with State law. As such, there are cash, investments and receivables that are due from the State and are available for use for educational purposes.

**Note 15 - Charter Holder Operations**

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

**ARISTOI CLASSIC ACADEMY, INC.**

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

**Note 16 - 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 17 - Management's Review of Subsequent Events**

Management has evaluated subsequent events through January 13, 2020, which is the date the financial statements were available to be issued.

The Academy is in negotiations with Crossover Bible Fellowship Church to lease facilities for a new campus that is scheduled to open in the fall of 2020.

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**

		<b>August 31,</b>	
<b>Expenses</b>		<b>2019</b>	<b>2018</b>
6100	Payroll Costs	\$ 4,888,300	\$ 4,210,797
6200	Professional and Contract Services	1,006,173	926,120
6300	Supplies and Materials	521,047	442,183
6400	Other Operating Costs	527,580	486,326
6500	Debt	847,621	915,678
	Total Expenses	<u>\$ 7,790,721</u>	<u>\$ 6,981,104</u>

**ARISTOI CLASSICAL ACADEMY, INC.**

**SCHEDULE OF CAPITAL ASSETS**

**For the Year Ended August 31, 2019**

		<b>Ownership Interest</b>		
		<b>Local</b>	<b>State</b>	<b>Federal</b>
1510	Land and improvements	\$	\$ 3,805,756	\$
1520	Building & leasehold improvements		9,069,378	
1531	Vehicles		7,724	
1539	Furniture and equipment		250,194	
	Total Property & equipment	<u>\$</u>	<u>\$ 13,133,052</u>	<u>\$</u>

**ARISTOI CLASSICAL ACADEMY, INC.**

**BUDGETARY COMPARISON SCHEDULE**

**For the Year Ended August 31, 2019**

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
<b>Revenues</b>				
Local Support:				
5700	\$ 405,900	\$ 445,475	\$ 472,351	\$ 26,876
5800	6,924,876	7,599,949	8,011,968	412,019
5900	254,616	262,611	297,590	34,979
Total Revenues	<u>7,585,392</u>	<u>8,308,035</u>	<u>8,781,909</u>	<u>473,874</u>
<b>Expenses</b>				
11	4,100,213	4,100,213	4,148,067	(47,854)
12	5,000	5,000	4,498	502
Curriculum Development and Instructional				
13	68,823	68,823	62,097	6,726
21	57,581	57,581	52,926	4,655
23	615,125	615,125	606,482	8,643
31	75,105	75,105	75,343	(238)
32			-	
33	73,564	73,564	67,929	5,635
34	5,000	4,512	3,900	612
35	181,789	199,513	208,663	(9,150)
36	40,000	43,900	47,351	(3,451)
41	341,937	341,937	344,338	(2,401)
51	939,843	1,031,478	1,088,636	(57,158)
52	7,000	7,685	7,267	418
53	94,008	94,008	92,461	1,547
71	855,750	855,750	847,621	8,129
81	118,050	129,560	133,142	(3,582)
Total Expenses	<u>7,578,788</u>	<u>7,703,754</u>	<u>7,790,721</u>	<u>(86,967)</u>
Change in net assets	6,604	604,281	991,188	386,907
Beginning net assets	<u>4,487,102</u>	<u>4,487,102</u>	<u>4,487,102</u>	
Ending net assets	<u>\$ 4,493,706</u>	<u>\$ 5,091,383</u>	<u>\$ 5,478,290</u>	<u>\$ 386,907</u>



**ARISTOI CLASSICAL ACADEMY, INC.**

**BUDGETARY COMPARISON SCHEDULE (continued)**

**For the Year Ended August 31, 2019**

**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). There were no variances above 10 percent.

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 5900	Increase in federal program revenues due to increase in Title I, Part A and Title IV Part A, Subpart 1 grants
Function 34	Decrease in student transportation due to reduced need for student transportation

**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, 2019, 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 13, 2020.

**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 13, 2020