



**Arlington Classics Academy**

**Financial Statements with Compliance Report and  
Supplementary Information**

**August 31, 2016**

**(with summarized comparative totals for August 31, 2015)**

**Arlington Classics Academy**  
Certificate of Board

Arlington Classics Academy  
Name of Charter Holder

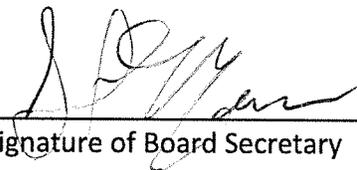
75-2734435  
Federal Employer ID Number

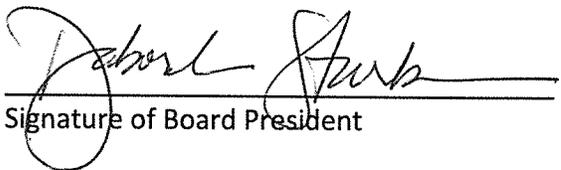
Arlington Classics Academy  
Name of Charter School

Tarrant  
County

220-802  
Co. Dist. Number

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Arlington Classics Academy. was reviewed and (check one)  approved \_\_\_ disapproved for the year ended August 31, 2016, at a meeting of the governing body of said charter school on the 27 day of December, 2016.

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

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

# Arlington Classics Academy

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## **Independent Auditors' Report**

To the Board of Directors of  
Arlington Classics Academy

We have audited the accompanying financial statements of Arlington Classics Academy (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 of 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 risk 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 Arlington Classic Academy as of August 31, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

### ***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the accompanying table of contents is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The supplemental 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 records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. 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 December 27, 2016 on our consideration of Arlington Classic Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Arlington Classic Academy's internal control over financial reporting and compliance.



A Limited Liability Partnership

Arlington, Texas  
December 27, 2016

**Arlington Classics Academy**  
**Statement of Financial Position**  
**August 31, 2016**

**(with summarized comparative totals as of August 31, 2015)**

	2016	2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,346,081	\$ 3,689,670
Due from Texas Education Agency	984,352	973,074
Other receivables	-	21,800
Prepaid expense	-	2,400
<b>Total current assets</b>	<b>5,330,433</b>	<b>4,686,944</b>
<b>Non-current assets:</b>		
Restricted cash and cash equivalents	8,383,280	1,566,084
Property and equipment, net	14,195,230	12,991,889
<b>Total non-current assets</b>	<b>22,578,510</b>	<b>14,557,973</b>
<b>Total assets</b>	<b>\$ 27,908,943</b>	<b>\$ 19,244,917</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 42,442	\$ 11,929
Accrued liabilities	758,361	680,471
Due to others	12,889	15,932
Current portion of long-term debt	320,000	250,000
<b>Total current liabilities</b>	<b>1,133,692</b>	<b>958,332</b>
Long-term debt, net	22,162,858	14,676,895
<b>Total liabilities</b>	<b>23,296,550</b>	<b>15,635,227</b>
<b>Net assets:</b>		
Unrestricted	2,596,597	2,008,191
Temporarily restricted	2,015,796	1,601,499
<b>Total net assets</b>	<b>4,612,393</b>	<b>3,609,690</b>
<b>Total liabilities and net assets</b>	<b>\$ 27,908,943</b>	<b>\$ 19,244,917</b>

See notes to financial statements.

**Arlington Classics Academy**  
**Statements of Activities**  
**Year ended August 31, 2016**  
**(with summarized comparative totals as of August 31, 2015)**

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
<b>Revenue and other support:</b>				
Local support:				
5740 Other revenue from local sources	\$ 441,836	\$ -	\$ 441,836	\$ 277,736
5750 Revenues from cocurricular, enterprising sources or activities	<u>154,903</u>	<u>-</u>	<u>154,903</u>	<u>186,413</u>
<b>Total local support</b>	<u>596,739</u>	<u>-</u>	<u>596,739</u>	<u>464,149</u>
<b>State program revenues:</b>				
5810 Foundation School Program	-	10,682,879	10,682,879	10,331,878
5820 State Program Revenues Distributed by TEA	<u>-</u>	<u>179,329</u>	<u>179,329</u>	<u>46,993</u>
<b>Total state programs revenues</b>	<u>-</u>	<u>10,862,208</u>	<u>10,862,208</u>	<u>10,378,871</u>
<b>Federal program revenues:</b>				
5920 ESEA Title I, Part A	-	66,699	66,699	79,067
5920 IDEA Part B, Formula	-	167,530	167,530	133,520
5920 ESEA Title II, Part A	-	24,903	24,903	26,113
5920 Child Nutrition Program	<u>-</u>	<u>125,416</u>	<u>125,416</u>	<u>117,024</u>
<b>Total federal programs revenues</b>	<u>-</u>	<u>384,548</u>	<u>384,548</u>	<u>355,724</u>
Net assets released from restrictions - restrictions satisfied by payments	<u>10,832,459</u>	<u>(10,832,459)</u>	<u>-</u>	<u>-</u>
<b>Total revenue and other support</b>	<u>11,429,198</u>	<u>414,297</u>	<u>11,843,495</u>	<u>11,198,744</u>

See notes to financial statements.

**Arlington Classics Academy**  
**Statements of Activities**  
**Year ended August 31, 2016**  
**(with summarized comparative totals as of August 31, 2015)**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>Expenses:</b>				
<b>Program services:</b>				
11 Instruction	\$ 5,605,249	\$ -	\$ 5,605,249	\$ 5,108,457
12 Instruction resources and media services	67,097	-	67,097	56,225
13 Curriculum development and instructional staff development	141,057	-	141,057	138,873
21 Instructional leadership	61,799	-	61,799	88,113
23 School leadership	507,460	-	507,460	528,537
31 Guidance, counseling, evaluation services	188,132	-	188,132	170,853
33 Health services	118,930	-	118,930	111,690
35 Food services	271,941	-	271,941	289,188
36 Extracurricular activities	175,187	-	175,187	122,842
<b>Total program services</b>	<u>7,136,852</u>	-	<u>7,136,852</u>	<u>6,614,778</u>
<b>Supporting services:</b>				
41 General administration	572,224	-	572,224	546,740
51 Facilities maintenance and operations	1,251,933	-	1,251,933	1,152,666
52 Security and monitoring services	61,552	-	61,552	30,612
53 Data processing services	393,309	-	393,309	255,915
61 Community services	2,951	-	2,951	2,821
71 Debt service	1,333,054	-	1,333,054	1,213,533
81 Fundraising	88,917	-	88,917	71,905
<b>Total support services</b>	<u>3,703,940</u>	-	<u>3,703,940</u>	<u>3,274,192</u>
<b>Total expenses</b>	<u>10,840,792</u>	-	<u>10,840,792</u>	<u>9,888,970</u>
<b>Increase in net assets</b>	588,406	414,297	1,002,703	1,309,774
<b>Net assets at beginning of year</b>	<u>2,008,191</u>	<u>1,601,499</u>	<u>3,609,690</u>	<u>2,299,916</u>
<b>Net assets at end of year</b>	<u>\$ 2,596,597</u>	<u>\$ 2,015,796</u>	<u>\$ 4,612,393</u>	<u>\$ 3,609,690</u>

See notes to financial statements.

**Arlington Classics Academy**  
**Statement of Cash Flows**  
**Year ended August 31, 2016**  
**(with summarized comparative totals as of August 31, 2015)**

	2016	2015
<b>Cash flows from operating activities:</b>		
Foundation school program payments	\$ 10,713,923	\$ 10,151,450
Federal program payments	521,555	466,041
Local support	618,539	466,855
Payments to vendors	(2,412,734)	(2,181,329)
Payments to employees	(6,553,571)	(6,176,445)
Interest payments	(1,328,054)	(1,208,533)
Net cash provided by operating activities	<u>1,559,658</u>	<u>1,518,039</u>
<b>Cash flows from investing activities-</b>		
purchases of property and equipment	<u>(1,583,658)</u>	<u>(666,715)</u>
Net cash used by investing activities	<u>(1,583,658)</u>	<u>(666,715)</u>
<b>Cash flows from financing activities:</b>		
Change in restricted cash and cash equivalents	(6,817,196)	311
Proceeds from issuance of long-term debt	7,967,239	-
Debt issuance costs	(12,239)	-
Discount on long-term debt	(207,393)	-
Principal payments of long-term debt	<u>(250,000)</u>	<u>(235,000)</u>
Net cash provided (used) by financing activities	<u>680,411</u>	<u>(234,689)</u>
<b>Increase in cash and cash equivalents</b>	656,411	616,635
<b>Cash and cash equivalents at beginning of year</b>	<u>3,689,670</u>	<u>3,073,035</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 4,346,081</u>	<u>\$ 3,689,670</u>
<b>Reconciliation of increase in net assets to net cash provided by operating activities:</b>		
Increase in net assets	\$ 1,002,703	\$ 1,309,774
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	377,250	372,455
Amortization	58,356	33,023
Loss on disposal of property and equipment	3,067	-
Changes in operating assets and liabilities:		
Due from TEA and other receivables	10,522	(114,398)
Prepaid expense	2,400	35,583
Accounts payable	30,513	(189,371)
Accrued liabilities	77,890	76,489
Due to others	<u>(3,043)</u>	<u>(5,516)</u>
<b>Net cash provided by operating activities</b>	<u>\$ 1,559,658</u>	<u>\$ 1,518,039</u>
Supplemental disclosure of noncash financing activities -		
Debt issuance costs paid through issuance of long-term debt	<u>\$ 497,761</u>	<u>\$ -</u>

See notes to financial statements.

# Arlington Classics Academy

## Notes to Financial Statements

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### 1. Organization

Arlington Classics Academy (Academy) operates under an open enrollment charter granted by the State of Texas Board of Education. This charter was issued for a period from October 14, 1998 to July 31, 2023 and is subject to review and renewal prior to the expiration date of the original charter. The Academy is part of the public school system of the State of Texas (State) and is therefore entitled to distribution from the State's available school fund. The Academy does not have the authority to impose ad valorem taxes or to charge tuition. The Academy operates a single charter school for students from kindergarten through eighth grade and does not conduct any non-charter activities.

The mission of the Academy is to equip a diverse student body with a comprehensive education, including a special focus on Western civilization. Students will develop a commanding knowledge of the origins of our liberty and the ability to sustain it through moral leadership. We aim to accomplish this goal through a high level of academic instruction and high behavioral expectations.

### 2. Summary of Significant Accounting Policies

#### ***Basis of Accounting and Presentation***

The Academy prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide.

#### ***Financial Statement Presentation***

Net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor or grantor stipulations that will be met by actions of the Academy 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.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be maintained permanently by the Academy. There are no permanently restricted net assets at August 31, 2016.

# **Arlington Classics Academy**

## **Notes to Financial Statements**

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### ***Financial Instruments and Concentrations of Risk***

Financial instruments which are potentially subject to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Academy places cash and cash equivalents, which at times may exceed the federally insured limits, with high credit quality financial institutions to minimize risk. At August 31, 2016, the Academy's cash was partially covered by federal depository insurance and the balance was fully collateralized by securities held by the Academy's agent in the Academy's name. The Academy has not experienced any losses in such accounts. Accounts receivable are unsecured and are primarily due from the Texas Education Agency. The Academy continually evaluates the collectability of accounts receivable and maintains allowances as necessary. No provision has been made for uncollectible accounts receivable as of the statement of financial position date, given that none have been identified.

For the year ended August 31, 2016, the Academy received 84% of its total revenue and support from governmental agencies.

### ***Cash and Cash Equivalents***

The Academy considers all highly liquid investments available for current use with original maturities of three months or less to be cash equivalents.

### ***Debt Issuance Costs upon Adoption of ASU 2015-03***

During the year ended August 31, 2016, the Academy retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Long-term debt as of August 31, 2015, was previously reported on the statement of financial position as \$15,780,000 with the associated \$886,128 unamortized debt issuance costs included in non-current assets. Amortization of the debt issuance costs is reported as debt service expense in the statement of activities.

### ***Property and Equipment***

Property and equipment are stated at cost, or if donated, at fair value on the date received. Assets with a cost of \$5,000 or more and a life of greater than one year are capitalized. Interest expense on debt issued for construction projects is capitalized until the projects are placed in service. Depreciation of property and equipment is calculated on a straight-line method over the estimated useful lives of 3 to 40 years. Property and equipment acquired with public funds received for the operation of the Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. For depreciable property and equipment, or resources to be used to acquire depreciable property and equipment, the donor restriction expires over the assets' useful lives.

# Arlington Classics Academy

## Notes to Financial Statements

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### ***Revenues and Contributions***

Revenues from the state's available school fund are earned based on reported attendance. Government grant contracts that are entered into by the Academy are recognized as revenue as contract terms are fulfilled.

Contributions and grants are considered to be available for unrestricted purposes unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

### ***Contributed Services***

Contributed services are recognized in the accompanying financial statements at fair value if the services received create or enhance non-financial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Numerous individuals donate significant amounts of time to the Academy. No donated services were utilized that met the criteria to be recorded as revenue in the Academy's financial statements.

### ***Federal Income Taxes***

The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and has not been classified as a private foundation as defined in the Code. Income generated from activities unrelated to the Academy's exempt purposes is subject to tax under Code Section 511. The Academy had no unrelated business income for the year ended August 31, 2016. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Academy's tax returns and recognition of a tax liability (or asset) if the Academy has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Academy, and has concluded that as of August 31, 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

### ***Estimates and Assumptions***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Arlington Classics Academy**  
**Notes to Financial Statements**

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### 3. Property and Equipment

Property and equipment consist of the following:

Buildings and improvements	\$ 12,833,185
Furniture and equipment	342,464
Land	2,447,748
Construction in progress	<u>1,113,242</u>
	16,736,639
Less accumulated depreciation	<u>(2,541,409)</u>
<b>Property and equipment, net</b>	<b><u>\$ 14,195,230</u></b>

Depreciation expense for the year ended August 31, 2016 totaled \$377,250.

### 4. Restricted Cash and Cash Equivalents Held by Bond Trustee

As a result of issuing the Series 2010 and 2016 Bonds, the Academy is required to maintain separate bank accounts that are restricted for debt-related matters as follows:

Construction	\$ 6,295,796
Debt service	162,573
Reserve	<u>1,924,911</u>
	<b><u>\$ 8,383,280</u></b>

### 5. Long-Term Debt

Long-term debt activity for the year ended August 31, 2016 was as follows:

	Balance at 9/1/2015	Additions	Retirements	Amortization expense	Balance at 8/31/2016
Series 2010A	\$ 4,720,000	\$ -	\$ (160,000)	\$ -	\$ 4,560,000
Series 2010B	10,505,000	-	-	-	10,505,000
Series 2010C	555,000	-	(90,000)	-	465,000
Series 2016A	-	7,870,000	-	-	7,870,000
Series 2016B	-	595,000	-	-	595,000
Unamortized discount	-	(207,393)	-	8,333	(199,060)
Debt issuance costs	<u>(853,105)</u>	<u>(510,000)</u>	<u>-</u>	<u>50,023</u>	<u>(1,313,082)</u>
	<b><u>\$14,926,895</u></b>	<b><u>\$ 7,747,607</u></b>	<b><u>\$ (250,000)</u></b>	<b><u>\$ 58,356</u></b>	<b><u>\$22,482,858</u></b>

Interest paid during the year ended August 31, 2016 was \$1,328,054.

## **Arlington Classics Academy**

### **Notes to Financial Statements**

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In April 2015, the Academy issued \$8,465,000 of bonds; \$7,870,000 of Series 2016A and \$595,000 of Series 2016B. Bond proceeds were used to pay issuance costs and the underwriter's discount, pay off previously outstanding debt, and provide funds for real property construction cost and required escrow related accounts.

In December, 2010, the Academy issued \$16,405,000 of bonds; \$5,010,000 of Series 2010A, \$10,505,000 of Series 2010B, and \$890,000 of Series 2010C. Bond proceeds were used to pay issuance costs and the underwriter's discount, pay off previously outstanding debt, and provide funds for real property construction cost and required escrow related accounts.

## Arlington Classics Academy

### Notes to Financial Statements

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Long-term debt consists of the following at August 31, 2016:

\$5,010,000 Series 2010A tax-exempt Education Revenue Bonds. The bonds have an interest rate of 7% and mature in varying amounts beginning August 15, 2014 through August 15, 2028; collateralized by a deed of trust.	\$ 4,560,000
\$10,505,000 Series 2010B tax-exempt Education Revenue and Refunding Bonds. The bonds have an interest rate of 7.65% and mature in varying amounts beginning August 15, 2029 through August 15, 2040; collateralized by a deed of trust.	10,505,000
\$890,000 Series 2010C taxable Education Revenue Bonds. The bonds have an interest rate of 10% and mature in varying amounts beginning August 15, 2011 through August 15, 2020; collateralized by a deed of trust.	465,000
\$7,870,000 Series 2016A tax-exempt Education Revenue Bonds. The bonds have an interest rate of 5% and mature in varying amounts beginning April 19, 2016 through August 15, 2045; collateralized by a deed of trust.	7,870,000
\$595,000 Series 2016B taxable Education Revenue Bonds. The bonds have an interest rate of 6.125% and mature in varying amounts beginning April 19, 2016 through August 15, 2025; collateralized by a deed of trust.	<u>595,000</u>
	23,995,000
Less debt issuance cost	(1,313,082)
Less unamortized discount on bonds	(199,060)
Less current portion of long-term debt	<u>(320,000)</u>
	<u>\$ 22,162,858</u>

**Arlington Classics Academy**  
**Notes to Financial Statements**

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The required debt service payments for the years ending August 31 are as follows:

	Principal	Interest	Total
2017	\$ 320,000	\$ 1,599,276	\$ 1,919,276
2018	350,000	1,574,313	1,924,313
2019	375,000	1,546,995	1,921,995
2020	405,000	1,517,670	1,922,670
2021	435,000	1,485,795	1,920,795
Thereafter	22,110,000	21,393,946	43,503,946
	\$23,995,000	\$29,117,995	\$53,112,995

**6. Multi-employer Defined Benefit Pension Plan**

The Academy participates in a cost-sharing multi-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan (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 Plan'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 Plan.

Detailed information about the Plan is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained at the TRS website; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (800) 223-8778.

TRS provides service retirement and disability retirement benefits, and death benefits to eligible employees (and their beneficiaries) of public and higher education in Texas. Charter schools are legally separate entities from the State and each other. Assets contributed by one charter school or Independent School District (ISD) may be used for the benefit of an employee of another ISD or charter school. The unfunded obligations get passed along to the other charter schools and ISDs. There is not a withdrawal penalty for leaving the TRS system.

## Arlington Classics Academy

### Notes to Financial Statements

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Information with respect to the Plan and the Academy's participation in the Plan for the year ended August 31, 2015 is as follows:

Legal Name of Plan:	Teacher Retirement System of Texas
EIN/Pension Plan Number:	N/A
Total Plan Assets:	\$149,780,061,824
Accumulated Benefit Obligations:	\$163,887,375,172
Plan funded percentage:	78.43% funded
Is plan covered by collective bargaining agreements?	No
Employer contributions to the plan:	\$428,665
Contributions greater than 5% of total plan contributions?	No
Contribution rates:	
Member	6.7%
Non-Employer Contributing Entity (State)	6.8%
Employers	6.8%

There have been no changes that would affect the comparison of employer contributions from year to year.

### 7. Health Care Coverage

During the year ended August 31, 2016, employees of the Academy were covered by the TRS Active employee Health Insurance Plan (Plan). The Academy contributed \$325 per month per employee for the period from September 1, 2015 to August 31, 2016 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

### 8. Leases

The Academy has non-cancelable operating lease agreements that expire at various dates through 2019. The following is a schedule of future minimum lease payments under these operating lease agreements for the years ending August 31:

2017	\$	57,287
2018		50,375
2019		42,349

Lease expense incurred during the year ended August 31, 2016 totaled \$113,610.

## **Arlington Classics Academy**

### **Notes to Financial Statements**

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#### **9. Commitments and Contingencies**

The Academy receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on 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 Academy 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.

#### **10. Subsequent Events**

The Academy evaluated subsequent events after the statement of financial position date of August 31, 2016 through December 27, 2016, which was the date the financial statements were available to be issued, and concluded that no additional disclosures are required.

## **Compliance Report**

**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

Board of Directors  
Arlington Classics Academy

We have audited, in accordance with U.S. generally accepted auditing standards 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 Arlington Classics Academy (Academy) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 27, 2016.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Academy'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.

### ***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 Limited Liability Partnership  
Certified Public Accountants

Arlington, Texas  
December 27, 2016

## **Supplemental Information**

**Arlington Classics Academy**  
**Schedule of Capital Assets**  
**August 31, 2016**

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Description	Ownership Interest		
	Local	State	Federal
1510 Land and improvements	\$ -	\$ 2,447,748	\$ -
1520 Buildings and improvements	-	12,833,185	-
1549 Furniture and equipment	-	342,464	-
1580 Construction in progress	-	1,113,242	-
	\$ -	\$ 16,736,639	\$ -

**Arlington Classics Academy**  
**Budgetary Comparison Schedule**  
**Year ended August 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenue and other support:				
Local support:				
5740 Other revenues from local sources	\$ 350,000	\$ 350,000	\$ 441,836	\$ 91,836
5750 Food service activity	200,000	200,000	154,903	(45,097)
State program revenues:				
5810 Foundation School Program	10,693,029	10,693,029	10,682,879	(10,150)
5820 State Program Revenues Distributed by TEA	-	-	179,329	179,329
Federal program revenues:				
5920 Federal program revenues	309,016	410,111	384,548	(25,563)
<b>Total revenue and other support</b>	<b>11,552,045</b>	<b>11,653,140</b>	<b>11,843,495</b>	<b>190,355</b>
Expenses:				
11 Instruction	5,487,734	5,623,408	5,605,249	18,159
12 Instructional resources and media services	71,106	71,106	67,097	4,009
13 Curriculum development and instructional staff development	117,684	156,431	141,057	15,374
21 Instructional leadership	111,312	66,312	61,799	4,513
23 School leadership	535,533	535,533	507,460	28,073
31 Guidance, counseling, evaluation services	212,227	204,369	188,132	16,237
33 Health services	117,582	127,582	118,930	8,652
35 Food services	285,000	290,000	271,941	18,059
36 Extracurricular activities	133,650	133,650	175,187	(41,537)
41 General administration	589,657	609,657	572,224	37,433
51 Facilities maintenance and operations	904,335	849,335	1,251,933	(402,598)
52 Security and monitoring services	82,500	60,500	61,552	(1,052)
53 Data processing services	297,752	423,182	393,309	29,873
61 Community services	4,000	3,000	2,951	49
71 Debt service	1,825,578	1,625,578	1,333,054	292,524
81 Fundraising	84,996	94,996	88,917	6,079
<b>Total expenses</b>	<b>10,860,646</b>	<b>10,874,639</b>	<b>10,840,792</b>	<b>33,847</b>
<b>Increase in net assets</b>	<b>691,399</b>	<b>778,501</b>	<b>1,002,703</b>	<b>224,202</b>
<b>Net assets at beginning of year</b>	<b>2,008,191</b>	<b>1,601,499</b>	<b>3,609,690</b>	<b>-</b>
<b>Net assets at end of year</b>	<b>\$ 2,699,590</b>	<b>\$ 2,380,000</b>	<b>\$ 4,612,393</b>	<b>\$ -</b>

**Arlington Classics Academy**  
**Schedule of Expenses**  
**Year ended August 31, 2016**

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<u>Object Code</u>	<u>Description</u>	<u>Amount</u>
6100	Payroll costs	\$ 7,292,721
6200	Professional and contracted services	775,627
6300	Supplies and materials	764,933
6400	Other operating expenses	616,101
6500	Debt	1,391,410
		<u>\$ 10,840,792</u>