

**INDEPENDENT  
AUDITOR'S REPORT**

**EVOLUTION ACADEMY CHARTER  
SCHOOL  
THE CHARTER HOLDER**

**FOR THE YEAR ENDED  
AUGUST 31, 2022 AND 2021**

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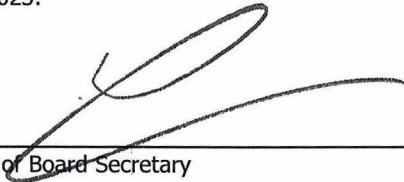
**CERTIFICATE OF BOARD**

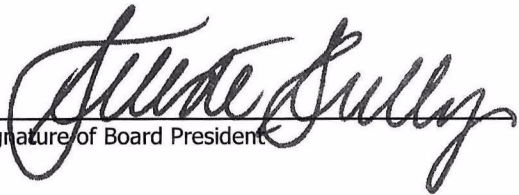
EVOLUTION ACADEMY CHARTER SCHOOL, INC.  
**Name of Charter Holder**

Dallas  
**County**

057-834  
**Co.-District Number**

We, the undersigned, certify that the attached annual financial reports of the above named charter school were reviewed and (check one)  approved  disapproved for the year ended August 31, 2022, at a meeting of the Board of Directors of such school on the 27th day of January 2023.

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

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

If the Board of Directors disapproved of the auditor's report, the reason(s) for disapproving it is (are): (Attach list as necessary.)

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Evolution Academy Charter School, Inc.  
Richardson, Texas

**Opinion**

We have audited the accompanying financial statements of Evolution Academy Charter School, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2022 and 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Evolution Academy Charter School, Inc. as of August 31, 2022 and 2021, 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.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Evolution Academy Charter School, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Evolution Academy Charter School, Inc. EVOLUTION ACADEMY CHARTER SCHOOL's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Evolution Academy Charter School, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Evolution Academy Charter School, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 schedule of expenditures of federal awards 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 27, 2023, on our consideration of Evolution Academy Charter School, LLC'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 solely 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 the effectiveness of Evolution Academy Charter School, LLC's 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 Evolution Academy Charter School, LLC's internal control over financial reporting and compliance.

*Mitchell T. Fontenote CPA, Inc.*

Port Neches, Texas  
January 27, 2023

*GENERAL-PURPOSE FINANCIAL STATEMENTS*

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b><u>ASSETS</u></b>		
Current Assets		
Cash and cash equivalents	\$ 1,298,620	\$ 2,151,441
Restricted Cash	1,345,012	1,295,888
Accounts Receivable	14,504	44,495
Due from State	295,209	266,556
Due from Federal Agencies	686,301	233,888
Prepaid expenses	56,729	22,097
Total Current Assets	<u>3,696,375</u>	<u>4,014,366</u>
Property and Equipment		
Furniture and equipment	15,852,887	15,852,887
Less: accumulated depreciation	<u>(4,302,524)</u>	<u>(3,986,927)</u>
Total Property and Equipment	<u>11,550,363</u>	<u>11,865,960</u>
Other Assets		
Bond Issuance Costs	198,733	209,773
Bond Discount	<u>108,720</u>	<u>114,760</u>
Total Restricted Assets	<u>307,453</u>	<u>324,533</u>
<b>Total Assets</b>	<b><u>\$ 15,554,191</u></b>	<b><u>\$ 16,204,859</u></b>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>		
Current Liabilities		
Accounts payable	\$ 266,244	\$ 521,314
Accrued payroll and related liabilities	76,694	55,882
Accrued interest	32,741	23,172
Current portion of loan payable	15,389	14,888
Current portion of capital lease	89,473	86,216
Current portion of notes payable	100,000	60,000
Total Current Liabilities	<u>580,541</u>	<u>761,472</u>
Long-Term Debt		
Loan Payable	35,130	49,428
Capital Lease	7,234,826	7,324,299
Bond Payable	<u>5,495,000</u>	<u>5,595,000</u>
Total Long-Term Debt	<u>12,764,956</u>	<u>12,968,727</u>
Total Liabilities	<u>13,345,497</u>	<u>13,730,199</u>
Net Assets		
Without donor restrictions	392,381	377,112
With donor restrictions	<u>1,816,313</u>	<u>2,097,549</u>
Total Net Assets	<u>2,208,694</u>	<u>2,474,660</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 15,554,191</u></b>	<b><u>\$ 16,204,859</u></b>

The accompanying notes are an integral part of this financial statement.

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2022 Totals</b>
<b>REVENUE</b>			
Local Support			
Bank Interest	\$ 7,358	\$ -	\$ 7,358
Contributions	3,483	-	3,483
Food Service Activity	614	-	614
Other Revenue from Local Sources	3,814	-	3,814
Total Local Support	<u>15,269</u>	<u>-</u>	<u>15,269</u>
State Program Revenue			
Foundation School Program Revenues	-	4,757,721	4,757,721
State Program Revenues Distributed by TEA	-	257,309	257,309
State Program Revenues Distributed by State of TX	-	4,857	4,857
Total State Program Revenues	<u>-</u>	<u>5,019,887</u>	<u>5,019,887</u>
Federal Program Revenues			
MAC Program	-	37,026	37,026
National Breakfast Program	-	52,393	52,393
National School Lunch Program	-	23,465	23,465
Federal Rev Distributed by TEA	-	1,780,340	1,780,340
Federal Rev Distributed Directly from Federal Gov	-	446	446
Total Federal Program Revenues	<u>-</u>	<u>1,893,670</u>	<u>1,893,670</u>
Net Assets Released from Restrictions			
Restrictions Satisfied by Payments	<u>7,194,792</u>	<u>(7,194,792)</u>	<u>-</u>
Total Property and Equipment	<u>7,194,792</u>	<u>(7,194,792)</u>	<u>-</u>
Total Revenues	<u>\$ 7,210,061</u>	<u>\$ (281,235)</u>	<u>\$ 6,928,826</u>
<b>EXPENSES</b>			
Program Services:			
Instruction & Instructional-Related Services	\$ 3,371,752	\$ -	\$ 3,371,752
Instruction & School Leadership	816,456	-	816,456
Support Services:			
Student Support Services	635,059	-	635,059
Administrative Support Services	426,371	-	426,371
Support Services - Non-Student Based	1,167,653	-	1,167,653
Ancillary Services	1,038	-	1,038
Debt Service	697,610	-	697,610
Fundraising	78,853	-	78,853
Total Expenses	<u>7,194,792</u>	<u>-</u>	<u>7,194,792</u>
Change in Net Assets	15,269	(281,235)	(265,966)
Net Assets, Beginning of the Year	<u>377,112</u>	<u>2,097,548</u>	<u>2,474,660</u>
<b>Net Assets, End of the Year</b>	<b><u>\$ 392,381</u></b>	<b><u>\$ 1,816,313</u></b>	<b><u>\$ 2,208,694</u></b>

The accompanying notes are an integral part of this financial statement.



**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2021 Totals</b>
<b>REVENUE</b>			
Local Support			
Bank Interest	\$ 2,113	\$ -	\$ 2,113
Food Service Activity	60,514	-	60,514
Other Revenue from Local Sources	165,285	-	165,285
Total Local Support	<u>227,912</u>	<u>-</u>	<u>227,912</u>
State Program Revenue			
Foundation School Program Revenues	-	6,365,066	6,365,066
State Program Revenues Distributed by TEA	-	143,884	143,884
State Program Revenues Distributed by State of TX	-	16,540	16,540
Total State Program Revenues	<u>-</u>	<u>6,525,490</u>	<u>6,525,490</u>
Federal Program Revenues			
MAC Program	-	7,363	7,363
National Breakfast Program		8,344	8,344
National School Lunch Program		1,523	1,523
Federal Rev Distributed by TEA		1,025,372	1,025,372
Federal Rev Distributed Directly from Federal Gov		587,383	587,383
Total Federal Program Revenues	<u>-</u>	<u>1,629,985</u>	<u>1,629,985</u>
Net Assets Released from Restrictions			
Restrictions Satisfied by Payments	<u>6,802,662</u>	<u>(6,802,662)</u>	<u>-</u>
Total Property and Equipment	<u>6,802,662</u>	<u>(6,802,662)</u>	<u>-</u>
Total Revenues	<u>\$ 7,030,574</u>	<u>\$ 1,352,814</u>	<u>\$ 8,383,388</u>
<b>EXPENSES</b>			
Program Services:			
Instruction & Instructional-Related Services	\$ 3,326,528	\$ -	\$ 3,326,528
Instruction & School Leadership	668,422	-	668,422
Support Services:			
Student Support Services	561,630	-	561,630
Administrative Support Services	391,962	-	391,962
Support Services - Non-Student Based	1,102,791	-	1,102,791
Ancillary Services	3,666	-	3,666
Debt Service	697,789	-	697,789
Fundraising	49,874	-	49,874
Total Expenses	<u>6,802,662</u>	<u>-</u>	<u>6,802,662</u>
Change in Net Assets	227,912	1,352,814	1,580,725
Net Assets, Beginning of the Year	<u>149,200</u>	<u>744,735</u>	<u>893,935</u>
<b>Net Assets, End of the Year</b>	<b><u>\$ 377,112</u></b>	<b><u>\$ 2,097,549</u></b>	<b><u>\$ 2,474,660</u></b>

The accompanying notes are an integral part of this financial statement.

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	<b>Program Activities</b>	<b>Supporting Activities</b>		2022 Totals
	Program Services	Management and General	Fundraising	
<b>EXPENSES</b>				
Salaries and Wages	\$ 2,440,740	\$ 875,454	\$ -	\$ 3,316,194
Benefits	327,879	109,221	-	437,100
Payroll Taxes	35,629	13,028	-	48,657
Total Payroll Expenses	<u>2,804,248</u>	<u>997,703</u>	<u>-</u>	<u>3,801,951</u>
Professional Services	609,802	88,955	312	699,069
Repairs and Maintenance	-	418,056	-	418,056
Utilities	-	178,467	-	178,467
Rentals	130,587	43,011	-	173,598
Contracted Services	81,643	35,338	5,356	122,337
Instructional Materials	3,071	-	-	3,071
General Supplies	225,395	17,354	-	242,749
Food Service	-	49,792	-	49,792
Travel	95,133	42,270	-	137,403
Insurance	107,655	-	-	107,655
Miscellaneous	130,674	43,579	73,185	247,438
Total Non-Payroll Expenses	<u>1,383,960</u>	<u>916,822</u>	<u>78,853</u>	<u>2,379,635</u>
Bond Related Expenses	-	25,581	-	25,581
Interest	-	672,029	-	672,029
Total Debt Expenses	<u>-</u>	<u>697,610</u>	<u>-</u>	<u>697,610</u>
Total Before Depreciation	4,188,208	2,612,135	78,853	6,879,196
Depreciation Expense	-	315,596	-	315,596
Total Expenses	<u>\$ 4,188,208</u>	<u>\$ 2,927,731</u>	<u>\$ 78,853</u>	<u>\$ 7,194,792</u>

The accompanying notes are an integral part of this financial statement.

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	<b>Program Activities</b>	<b>Supporting Activities</b>		2021 Totals
	Program Services	Management and General	Fundraising	
<b>EXPENSES</b>				
Salaries and Wages	\$ 2,405,736	\$ 835,376	\$ -	\$ 3,241,112
Benefits	323,577	101,011	-	424,588
Payroll Taxes	41,673	15,273	-	56,946
Total Payroll Expenses	<u>2,770,986</u>	<u>951,660</u>	<u>-</u>	<u>3,722,646</u>
Professional Services	403,178	70,823	-	474,001
Repairs and Maintenance	-	341,359	-	341,359
Utilities	-	204,855	-	204,855
Rentals	126,000	23,072	-	149,072
Contracted Services	52,384	25,986	39,355	117,725
Instructional Materials	77,985	-	-	77,985
General Supplies	336,176	17,366	-	353,542
Food Service	-	74,922	-	74,922
Travel	12,872	2,005	-	14,877
Insurance	99,118	-	-	99,118
Miscellaneous	116,251	41,501	10,518	168,270
Total Non-Payroll Expenses	<u>1,223,964</u>	<u>801,891</u>	<u>49,873</u>	<u>2,075,728</u>
Bond Related Expenses	-	26,581	-	26,581
Interest	-	671,208	-	671,208
Total Debt Expenses	<u>-</u>	<u>697,788</u>	<u>-</u>	<u>697,788</u>
Total Before Depreciation	3,994,950	2,451,339	49,873	6,496,162
Depreciation Expense	-	306,501	-	306,501
Total Expenses	<u>\$ 3,994,950</u>	<u>\$ 2,757,839</u>	<u>\$ 49,873</u>	<u>\$ 6,802,662</u>

The accompanying notes are an integral part of this financial statement.

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (265,966)	\$ 1,580,725
Adjustments to reconcile the change in net assets to cash provided by operating activities:		
Depreciation	315,597	323,582
Amortization of bond costs	17,080	-
(Increase) Decrease in Accounts Receivable	29,991	(28,889)
(Increase) Decrease in Due from State	(28,653)	7,180
(Increase) Decrease in Due from Federal Agencies	(452,413)	69,771
(Increase) Decrease in Prepaid Expenses	(34,632)	(571)
Increase (Decrease) in Accounts Payable	(255,070)	27,438
Increase (Decrease) in Accrued payroll and related liabilities	20,812	777
Increase (Decrease) in Accrued Interest	9,569	(14,107)
Net cash provided (used) by operating activities	<u>(643,685)</u>	<u>1,965,906</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Furniture and Equipment	-	(135,039)
Net cash provided (used) by investing activities	<u>-</u>	<u>(135,039)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payment on bond	(60,000)	(55,000)
Capital Lease Principal Payments	(85,124)	(83,077)
Loan payable payments	(14,888)	(540,632)
Net cash provided (used) by financing activities	<u>(160,012)</u>	<u>(678,709)</u>
 Net increase (decrease) in cash and cash equivalents	(803,697)	1,152,158
 Cash and cash equivalents, Beginning of Year	<u>3,447,329</u>	<u>2,295,171</u>
 Cash and cash equivalents, End of Year	<u>\$ 2,643,632</u>	<u>\$ 3,447,329</u>
 Interest paid during the year	\$ 686,487	\$ 671,208
Income taxes paid during the year	\$ -	\$ -

The accompanying notes are an integral part of this financial statement.

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 1: Summary of Significant Accounting Policies**

The general-purpose financial statements of EVOLUTION ACADEMY CHARTER SCHOOL (the corporation) 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 corporation is a not-for-profit organization incorporated in the State of Texas in 1999 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The corporation is governed by a Board of Directors comprised of four members. The Board of Directors is selected pursuant to the bylaws of the corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the corporation.

Since the corporation received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

***Corporate Operations***

Evolution Academy was solely organized to provide educational services to "at-risk" students. In 2002, the State Board of Education of the State of Texas granted the corporation 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, Evolution Academy was opened January 7, 2002. The charter was renewed for a period of ten years (through July 31, 2029). As of April 29, 2013, the commissioner approved the amendment request to add campuses to be known as Evolution Academy Spring and Evolution Academy Beaumont. The School programs, services, activities, and functions are governed by the corporation's board of directors. The charter school program is the only financial activity of the corporation.

***Basis of Accounting and Presentation***

The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

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

**Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, board-designated.

**Net Assets With Donor Restrictions** – Net assets subject to donor-imposed restrictions. Some donor-imposed restriction 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

***Contributions***

The corporation accounts for contributions as support without donor restrictions and with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

***Cash and Cash Equivalents***

For financial statement purposes, the Corporation considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

***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 corporation as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense 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.

***Personal Leave***

Full-time employees of the School earn five days of local paid personal leave. These balances do not accumulate, and they are not payable upon departure. There is no liability for unpaid accumulated personal leave since the School does not have a policy to pay any amounts when the employees separate from service with the School. Employees additionally earn five days of state paid personal leave per year. There is no liability for unpaid accumulated sick leave since the School does not have a policy to pay any amounts when the employees separate from service with the School, and any unused balance is transferable to other schools.

***Functional Allocation of Expenses***

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefitted.

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 2: Accumulated Unpaid Vacation and Sick Leave Benefits**

August 31, 2022 and 2021, the charter holder had no material liability for accrued sick leave or vacation leave.

**Note 3: Cash Deposits**

The charter holder's funds are deposited and invested with a depository bank. The depository bank should deposit for safekeeping and trust with the charter holder's agent bank approved pledged securities in an amount sufficient to protect charter school's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2022, the carrying amount of the charter holder's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$2,643,632, and the bank balance was \$1,307,287. The charter holder's cash deposits at August 31, 2022, and during the year ended August 31, 2022, were adequately covered by FDIC insurance and by pledged collateral held by the charter holder's agent bank in the charter holder's name.

At August 31, 2021, the carrying amount of the charter holder's deposits ( cash and interest-bearing savings accounts included in temporary investments) was \$3,447,316, and the bank balance was \$2,166,0356 The charter holder's cash deposits at August 31, 2021, and during the year ended August 31, 2021, were adequately covered by FDIC insurance and by pledged collateral held by the charter holder's agent bank in the charter holder's name.

**Note 4: Due from State**

At August 31, 2022 and 2021, the charter holder had earned the following revenues which were not received until after year end:

	<u>2022</u>	<u>2021</u>
Due from TEA	\$ 295,209	\$ 266,556
Due from other	686,301	233,888
Total Due from Governments	<u>\$ 981,510</u>	<u>\$ 500,444</u>

**Note 5: Capital Assets**

Capital assets at August 31, 2022 were as follows:

	<u>Balance</u> <u>09/01/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>08/31/2022</u>
Buildings & Improvements	\$ 14,675,984	\$ -	\$ -	\$ 14,675,984
Equipment	829,711	-	-	829,711
Vehicles	197,507	-	-	197,507
Software	149,685	-	-	149,685
Accumulated Depreciation	<u>(3,986,927)</u>	<u>(315,597)</u>	-	<u>(4,302,524)</u>
Property and Equipment, Net	<u>\$ 11,865,960</u>	<u>\$ (315,597)</u>	<u>\$ -</u>	<u>\$ 11,550,363</u>

**EVOLUTION ACADEMY CHARTER SCHOOL  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 5: Capital Assets Continued**

Capital assets at August 31, 2021 were as follows:

	<b>Balance 09/01/2020</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 08/31/2021</b>
Buildings & Improvements	\$ 14,675,984	\$ -	\$ -	\$ 14,675,984
Equipment	789,815	39,896	-	829,711
Vehicles	102,365	95,142	-	197,507
Software	149,685	-	-	149,685
Accumulated Depreciation	<u>(3,680,426)</u>	<u>(306,501)</u>	<u>-</u>	<u>(3,986,927)</u>
Property and Equipment, Net	<u>\$ 12,037,423</u>	<u>\$ (171,463)</u>	<u>\$ -</u>	<u>\$ 11,865,960</u>

Capital assets acquired with public funds received by the corporation for the operation of EVOLUTION ACADEMY CHARTER SCHOOL constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

**Note 6: Net Assets with Donor Restrictions**

The School has \$1,816,313 in net assets with donor restrictions at August 31, 2022. These amounts are subject to restrictions put in place by the Texas Education Agency.

**Note 7: Long-Term Debt**

During the year ended August 31, 2011, the corporation issued revenue bonds in the aggregate amount of \$6,040,000, designated Evolution Academy Charter School, Inc. Series 2010A (the "Series 2010A, 2010B, 2010Q Bonds"). The proceeds of the bonds were used to finance and refinance the cost of certain land, building, facilities and improvements on the campus of Evolution Academy Charter School in Richardson, Texas, and to pay certain cost of issuing such bonds. The bonds are secured by a pledge of all revenues and all amounts at any time deposited in the Construction Fund and by mortgage on the properties financed or refinanced from proceeds of the bonds, including all revenues thereon. The bonds are payable annually with the bond holder requiring monthly payments to a restricted account for the payment of principal and interest.

The first payment was due August 31, 2011 and was interest only. The remainder principal is payable on August 1 of each year with interest payments required to be paid February 1 and August 1 of each year. The interest rate required through the year 2023 is 9.00% and 6.50% thereafter.

The capitalized bond issuance costs and the discount on the bonds as displayed as "Other Assets" on the statement of financial position are being amortized over the life of the bonds at a total of \$1,423 per month. For the year ending August 31, 2022, a total of \$17,081 was amortized with a charge to bond issuance expense.



**EVOLUTION ACADEMY CHARTER SCHOOL  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 7: Long-Term Debt Continued**

Long-term debt at August 31, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Note payable to a bank, 9% interest, principal and interest due in monthly installments of \$44,643 commencing August 25, 2020. Final payment is due August 31, 2040. The note is secured by a pledge of all revenues and by mortgage on the property financed or refinanced from proceeds of the bonds of the charter school.	\$ 5,595,000	\$ 5,655,000
Less: Current Portion of Long-Term Debt	(100,000)	(60,000)
Total Long-Term Debt	<u>\$ 5,495,000</u>	<u>\$ 5,595,000</u>

Future maturities of long-term, debt at August 31, 2022 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	100,000	394,300	494,300
2024	100,000	387,800	487,800
2025-2029	640,000	1,624,575	2,264,575
2030	230,000	229,450	459,450
2031	245,000	214,500	459,500
Thereafter	4,280,000	1,075,100	5,355,100
	<u>\$ 5,595,000</u>	<u>\$ 3,925,725</u>	<u>\$ 9,520,725</u>

**Note 8: Operating Lease Agreements**

The School entered a lease for their Houston facility in August 2013 with an original balance of \$7,996,340 for 47 years with a fixed interest rate of 3.714% due in monthly installments of \$30,000 principal and interest. Interest and principal payments are due as follows:

**Current Capital Lease Payable  
Houston Facility Lease**

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	89,473	270,527	360,000

**Capital Lease Payable  
Houston Facility Lease**

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	92,854	267,146	360,000
2025	96,362	263,638	360,000
2026	100,002	259,998	360,000
2027	103,780	256,220	360,000
2028-2060	6,841,828	5,038,172	11,880,000
	<u>\$ 7,324,299</u>	<u>\$ 6,355,701</u>	<u>\$ 13,680,000</u>

**EVOLUTION ACADEMY CHARTER SCHOOL  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 9: Defined Benefit Pension Plan**

**Plan Description.** The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard workload and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

**Pension Plan Fiduciary Net Position.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

The information provided in the Notes to the Financial Statements in the 2020 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2020.

<u>Components of Net Pension Liability</u>	<u>Amount</u>
Total Pension Liability	\$ 227,273,463,630
Less: Plan Fiduciary Net Position	<u>(201,807,002,496)</u>
Net Pension Liability	<u>\$ 25,466,461,134</u>
Net Position as Percentage of Total Pension Liability	88.79%

**Benefits Provided.** TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement age is 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

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. Actuarial implications of the funding provided in the manner are determined by the system's actuary.

In May 2019, the 86<sup>th</sup> Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers, and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the legislature to approve funding for a 13<sup>th</sup> check in September 2019. All eligible members retired as of December 31, 2018, received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

**Contributions.** Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

**EVOLUTION ACADEMY CHARTER SCHOOL  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 9: Defined Benefit Pension Plan Continued**

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Form Bill (Senate Bill 12) of the 86<sup>th</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025. Contribution Rates can be found in the TRS 2020 ACFR, Note 11, on page 85 and 86.

Contribution Rates		
	2021	2022
Member	7.7%	8.0%
Non-Employer Contributing Entity (State)	7.5%	7.8%
Employers	7.7%	7.5%
Charter Holder's Employer Contributions		\$259,846
Charter Holder's Member Contributions		\$137,045
Charter Holder's NECE On-Behalf		\$123,244

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (including public schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment
- When any part or all of an employee's salary is paid by federal funding sources or a privately sponsored source, from non-educational and general, or local funds.
  
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50 percent of the state contribution rate for certain instructional or administrative employees; and 100 percent of the state contribution rate for all other employees.

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

- All public schools, charter schools, and regional educational service centers must contribute 1.6 percent of the member's salary beginning in fiscal year 2021, gradually increasing to 2 percent in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

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**Note 9: Defined Benefit Pension Plan Continued**

***Actuarial Assumptions.***

The total pension liability in the August 31, 2020, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term expected Investment Rate	7.25%
Municipal Bond Rate as of August 2020	1.95% - The source for this rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity's Index's "20-Year Municipal Go AA Index"
Last year ending August 31 in Projection Period (100 years)	2120
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2020. For a full description of these assumptions please see the TRS actuarial valuation report dated November 9, 2020.

***Discount Rate.*** The single discount rate used to measure the total pension liability was 7.25%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the statutorily required rates set by the Legislature during the 2019 legislative session. It is assumed that future employer and state contributions will be 8.5% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2021 (see page 53 of the TRS ACFR) are summarized below.

**EVOLUTION ACADEMY CHARTER SCHOOL  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 9: Defined Benefit Pension Plan Continued**

Asset Class*	Target Allocation %**	Long-Term Expected Geometric Real Rate of Return***	Expected Contribution to Long-Term Portfolio Returns
<b>Global Equity</b>			
U.S.	18.00%	3.60%	0.94%
Non-U.S. Developed	13.00%	4.40%	0.83%
Emerging Markets	9.00%	4.60%	0.74%
Private Equity	14.00%	6.30%	1.36%
<b>Stable Value</b>			
Government Bonds	16.00%	-0.20%	0.01%
Absolute Return	0.00%	1.10%	0.00%
Stable Value Hedge	5.00%	2.20%	0.12%
<b>Real Return</b>			
Real Estate	15.00%	4.50%	1.00%
Energy, Natural Resources	6.00%	4.70%	0.35%
Commodities	0.00%	1.70%	0.00%
<b>Risk Parity</b>			
	8.00%	2.80%	0.28%
<b>Asset Allocation Leverage</b>			
Cash	2.00%	-0.70%	-0.01%
Asset Allocation Leverage	-6.00%	-0.50%	0.03%
Inflation Expectation			2.20%
Volatility Drag****			-0.95%
<b>Total</b>	<b>100.00%</b>		<b>6.90%</b>

\*Absolute Return Includes Credit Sensitive Investments.

\*\*Target allocations are based on the FY2021 policy model.

\*\*\*Capital Market Assumptions come from Aon Hewitt as of (8/31/2021).

\*\*\*\*The volatility drag results from the converseion between arithmetic and geometric mean returns.

**Discount Rate Sensitivity Analysis.** The following table presents net pension liability of the plan using the discount rate of 7.25%, and what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate. The discount rate can be found in the 2021 TRS ACFR, Note 11, page 87 and the Table of Sensitivities can be found on page 88.

	1% Decrease in Discount Rate 6.25%	Discount Rate 7.25%	1% Increase in Discount Rate 8.25%
School's proportionate share of the net pension liability	\$ 2,205,748	\$ 1,009,423	\$ 38,839

**EVOLUTION ACADEMY CHARTER SCHOOL  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 9: Defined Benefit Pension Plan Continued**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At August 31, 2021, the District reported a liability of \$1,009,423 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

School's proportionate share of the collective net pension liability	\$	1,009,423
State's proportionate share that is associated with the District		<u>735,466</u>
Total	<u>\$</u>	<u>1,744,889</u>

The net pension liability was measured as of August 31, 2020, and rolled forward to August 31, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2020, through August 31, 2021.

At August 31, 2021, the employer's proportion of the collective net pension liability was 0.0039637333% which was an decrease of 0.000011156% from its proportion measured as of August 31, 2020.

***Changes Since the Prior Actuarial Valuation.*** There were no changes in assumptions since the prior measurement date.

**Note 10: Defined Other Post-Employment Benefit Plans**

***Plan Description.*** The District 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 TRS-Care program was established in 1986 by the Texas Legislature.

The TRS Board of Trustees administers the TRS-Care program and the related fund in accordance with Texas Insurance Code Chapter 1575.052. The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

***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 on the Internet at [http://www.trs.texas.gov/Pages/about\\_publications.aspx](http://www.trs.texas.gov/Pages/about_publications.aspx); by writing to TRS at 1000 Red River Street, Austin, TX 78701-2569; or by calling (512) 542-6592.

Components of the Net OPEB liability of the TRS-Cares plan as of August 31, 2020 are as follows:

<u>Net OPEB Liability</u>	<u>Amount</u>
Total OPEB Liability	\$ 41,113,711,083
Less: Plan Fiduciary Net Position	<u>(2,539,242,470)</u>
Net OPEB Liability	<u>\$ 38,574,468,613</u>
Net Position as Percentage of Total OPEB Liability	6.18%

**EVOLUTION ACADEMY CHARTER SCHOOL  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 10: Defined Other Post-Employment Benefit Plans Continued**

**Benefits Provided.** TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension system. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may pay enroll in TRS-Care Standard, a high deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for retirees are presented in the following table:

TRS-Care Monthly Premium rates

	<u>Medicare</u>	<u>Non-Medicare</u>
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

**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 participating employers based on active employee compensation. 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 .65% of salary. Section 1575.204 establishes a public-school 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 employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act which is 0.75% of each active employee's pay for fiscal year 2019. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2021</u>	<u>2022</u>
Active Employee	0.65%	0.65%
State	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding	1.25%	1.25%
Employer Contributions		2022 \$24,361
Member Contributions		2022 \$34,765
NECE On-Behalf Contributions		2021 \$39,164

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS Care OPEB program). When employers hire a TRS retiree, they are required to pay to TRS-Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$5,520,343 million in fiscal year 2021 for consumer protections against medical and health care billing by certain out-of-network providers.

**EVOLUTION ACADEMY CHARTER SCHOOL  
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NOTES TO THE FINANCIAL STATEMENTS  
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**Note 10: Defined Other Post-Employment Benefit Plans Continued**

**Actuarial Assumptions.** The total OPEB liability in the August 31, 2021. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2021. The actuarial valuation was determined using the following actuarial assumptions: (Actuarial assumptions can be found in the 2021 TRS CAFR, Note 9, page 76).

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. All the demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017. The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2020, TRS pension actuarial valuation that was rolled forward to August 31, 2021:

Rates of Mortality	Rates of Disability
Rates of Retirement	General Inflation
Rates of Termination	Wages Inflation

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale (U-MP).

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2020
Discount Rate	2.20%
Actuarial Cost Method	Entry Age
Salary Increases	2.30% to 9.05% including inflation
Inflation	2.30%
Ad hoc post-employment benefit changes	None
Annual Healthcare Trend Rates	<u>HealthSelect</u> 8.80% for FY2022, 5.25% for FY2023, 5.00% for FY2024, 4.75% for FY2025, 4.60% for FY2026, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2029 and later years.
	<u>HealthSelect Medicare Advantage</u> (53.30)% for FY2022, 0.00% for FY2023, 66.67% for FY2024, 24.00% for FY2025, 4.60% for FY2026, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2029 and later years.
	<u>Pharmacy</u> 10.00% for FY2022 and FY2023, decreasing 100 basis points per year to 5.00% for FY2028 and 4.30% for FY2029 and later years.



**EVOLUTION ACADEMY CHARTER SCHOOL  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 10: Defined Other Post-Employment Benefit Plans Continued**

**Discount Rate.** A single discount rate of 1.95% was used to measure the total OPEB liability. There was a decrease of 0.38 percent in the discount rate since the previous year. The Discount Rate can be found in the 2021 TRS ACFR on page 77. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to **not be able** to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

The source of the municipal bond rate is the Fidelity "20-year Municipal GO AA Index" as of August 31, 2021, using the fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

**Sensitivity of the Net OPEB Liability:**

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.33%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate 0.95%	Discount Rate 1.95%	1% Increase in Discount Rate 2.95%
School's proportionate share of the net OPEB liability	\$ 1,741,051	\$ 1,443,382	\$ 1,209,106

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At August 1, 2021, the District reported a liability of \$1,443,382 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

School's proportionate share of the collective net OPEB liability	\$ 1,443,382
State's proportionate share that is associated with the School	<u>1,933,810</u>
Total	<u>\$ 3,377,192</u>

The Net OPEB Liability was measured as of August 31, 2020, and rolled forward to August 31, 2021 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2020, thru August 31, 2021.

At August 31, 2021, the employer's proportion of the collective Net OPEB Liability was 0.003741806% compared to the 0.004340127% as of August 31, 2020. This is a decrease of 0.000598322%.

The following presents the net OPEB liability if a healthcare trend rate that is 1% less and 1% greater than the health trend rates assumed.

	1% Decrease in Healthcare Trend	Current Single Healthcare Trend	1% Increase in Healthcare Trend
School's proportionate share of the net OPEB liability	\$ 1,169,091	\$ 1,443,382	\$ 1,811,411

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 10: Defined Other Post-Employment Benefit Plans Continued**

**Changes in Actuarial Assumptions Since the Prior Actuarial Valuation** – The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

- The discount rate changed from 2.33% as of August 31, 2020 to 1.95% as of August 31, 2021. This change increased the Total OPEB Liability.

**Changes in Benefit Terms:** There were no changes in benefit terms since the prior measurement date.

**Note 11: Health Care Coverage**

During the year ended August 31, 2022 and 2021, employees of the charter school were covered by a Health Insurance Plan (the Plan). The charter school contributed \$440 per month per employee to the Plan. Employees, at their option, authorized payroll withholding to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**Note 12: Commitments and Contingencies**

The charter school 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 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. In the opinion of the charter school, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Note 13: Economic Dependency**

During the year ended August 31, 2021, the charter school earned revenue of \$5,019,887 from the Texas Education Agency (TEA) and \$1,893,670 from federal grants. This constitutes approximately 99.8% of total revenue earned. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the charter school to continue to provide the current level of services to its students.

**Note 14: Income Tax**

On December 30, 2008, the FASB issued FASB Staff Position (FSP) FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. There was no unrelated business income for the year ended August 31, 2022, and as a result, there was no income tax liability.

**Note 15: Subsequent Events**

Management has evaluated the impact of all subsequent events on the Company through January 27, 2023, the date the financial statements were available for issuance, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements other than the uncertainty of the coronavirus discussed below.

As a result of the spread of COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, statement of activities, and cash flows for the school. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

**EVOLUTION ACADEMY CHARTER SCHOOL  
(THE CHARTER HOLDER)**

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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2022

**Note 16: Related Party Transactions**

The corporation paid Cynergy Collaboration Consultants, Inc., a company owned by the spouse of the charter school's CEO, \$908,145 for the year ended August 31, 2022. Cynergy Collaboration provides janitorial and technology support services to the charter school and owns the facility of the Spring location. The building is a commercial property used as an administrative office and classroom campus in Spring, TX. The corporation pays \$30,000 per month on a forty-seven year lease which began in August 2013.

**Note 17: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of cash and cash equivalents of \$392,381. Except for these financial assets, EVOLUTION ACADEMY CHARTER SCHOOL's cash, due from TEA, and fixed assets' use are restricted by the Texas Education Agency, federal agencies, and donors for charter school operations.

**Note 18: Budgetary Variances**

The budget to actual comparison revealed the following functions for which the variance is greater than ten percent:

- **Per Capita Apportionment** – Amounts received exceed original estimate calculations based on enrollment.
- **Function 13** – The variance greater than 10% is due to an underestimation of training costs. Budgeted amounts were not adequately adjusted.
- **Function 31** - The variance greater than 10% is due to increased costs for support personnel/staff. Budgeted amounts were not adequately adjusted.
- **Function 34** – The variance greater than 10% is due to the increased cost of fuel and repairs. We also purchased a new vehicle which not included in the original budget forecast. Budgeted amounts were not adequately adjusted.
- **Function 35** – The variance greater than 10% is due to is due to an underestimation of food service costs caused by inflation. Initial budgeted amounts were not adequately adjusted.
- **Function 52** – The variance greater than 10% is due to underestimation of the cost of adding new security staff.
- **Function 81** – The variance greater than 10% due to increased marketing/media campaign costs not originally included in the budget.

*SPECIFIC-PURPOSE FINANCIAL STATEMENT*

**EVOLUTION ACADEMY CHARTER SCHOOL**

## STATEMENT OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Totals</u>
<b>REVENUE</b>			
Local Support			
5740 Other Revenues from Local Sources	\$ 14,655	\$ -	\$ 14,655
5750 Revenue from Cocurricular Enterprising	614	-	614
Total Local Support	<u>15,269</u>	<u>-</u>	<u>15,269</u>
State Program Revenue			
5810 Foundation School Program Act Revenues	-	4,757,721	4,757,721
5820 State Program - TEA	-	257,309	257,309
5830 State Program Revenues - Non TEA	-	4,857	4,857
Total State Program Revenues	<u>-</u>	<u>5,019,887</u>	<u>5,019,887</u>
Federal Program Revenues			
5920 Federal Revenues Distributed by TEA	-	1,856,198	1,856,198
5930 Federal Revenues - Other than TEA	-	37,026	37,026
5940 Fed Rev Distributed Directly from Fed Gov	-	446	446
Total Federal Program Revenues	<u>-</u>	<u>1,893,670</u>	<u>1,893,670</u>
Net Assets Released from Restrictions			
Restrictions Satisfied by Payments	<u>7,194,792</u>	<u>(7,194,792)</u>	<u>-</u>
Total Property and Equipment	<u>7,194,792</u>	<u>(7,194,792)</u>	<u>-</u>
Total Revenues	<u>\$ 7,210,061</u>	<u>\$ (281,235)</u>	<u>\$ 6,928,826</u>
<b>EXPENSES</b>			
11 Instruction	\$ 3,129,270	\$ -	\$ 3,129,270
13 Curriculum & Instructional Staff Development	242,482	-	242,482
23 School Leadership	816,456	-	816,456
31 Guidance, Counseling, and Evaluation Services	419,144	-	419,144
34 Student (Pupil) Transportation	106,052	-	106,052
35 Food Service	109,863	-	109,863
41 General Administration	426,371	-	426,371
51 Plant Maintenance and Operations	948,568	-	948,568
52 Security and Monitoring Services	63,410	-	63,410
53 Data Processing Services	155,675	-	155,675
61 Community Service	1,038	-	1,038
71 Debt Services	697,610	-	697,610
81 Fundraising	78,853	-	78,853
Total Expenses	<u>7,194,792</u>	<u>-</u>	<u>7,194,792</u>
Change in Net Assets	15,269	(281,235)	(265,966)
Net Assets, Beginning of the Year	<u>377,112</u>	<u>2,097,548</u>	<u>2,474,660</u>
<b>Net Assets, End of the Year</b>	<b><u>\$ 392,381</u></b>	<b><u>\$ 1,816,313</u></b>	<b><u>\$ 2,208,694</u></b>

**EVOLUTION ACADEMY CHARTER SCHOOL**

## STATEMENT OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2021 Totals</b>
<b>REVENUE</b>			
Local Support			
5740 Other Revenues from Local Sources	\$ 167,398	\$ -	\$ 167,398
5750 Revenue from Cocurricular Enterprising	60,514	-	60,514
Total Local Support	<u>227,912</u>	<u>-</u>	<u>227,912</u>
State Program Revenue			
5810 Foundation School Program Act Revenues	-	6,365,066	6,365,066
5820 State Program - TEA	-	143,884	143,884
5830 State Program Revenues - Non TEA	-	16,540	16,540
Total State Program Revenues	<u>-</u>	<u>6,525,490</u>	<u>6,525,490</u>
Federal Program Revenues			
5920 Federal Revenues Distributed by TEA	-	1,035,239	1,035,239
5930 Federal Revenues - Other than TEA	-	7,363	7,363
5940 Fed Rev Distributed Directly from Fed Gov	-	587,383	587,383
Total Federal Program Revenues	<u>-</u>	<u>1,629,985</u>	<u>1,629,985</u>
Net Assets Released from Restrictions			
Restrictions Satisfied by Payments	6,802,662	(6,802,662)	-
Total Property and Equipment	<u>6,802,662</u>	<u>(6,802,662)</u>	<u>-</u>
Total Revenues	<u>\$ 7,030,574</u>	<u>\$ 1,352,814</u>	<u>\$ 8,383,387</u>
<b>EXPENSES</b>			
11 Instruction	\$ 3,223,387	\$ -	\$ 3,223,387
13 Curriculum & Instructional Staff Development	103,141	-	103,141
23 School Leadership	668,422	-	668,422
31 Guidance, Counseling, and Evaluation Services	368,476	-	368,476
34 Student (Pupil) Transportation	57,091	-	57,091
35 Food Service	136,064	-	136,064
41 General Administration	391,962	-	391,962
51 Plant Maintenance and Operations	886,505	-	886,505
52 Security and Monitoring Services	54,942	-	54,942
53 Data Processing Services	161,344	-	161,344
61 Community Service	3,666	-	3,666
71 Debt Services	697,789	-	697,789
81 Fundraising	49,873	-	49,873
Total Expenses	<u>6,802,662</u>	<u>-</u>	<u>6,802,662</u>
Change in Net Assets	227,912	1,352,814	1,580,725
Net Assets, Beginning of the Year	<u>149,200</u>	<u>744,735</u>	<u>893,935</u>
<b>Net Assets, End of the Year</b>	<b><u>\$ 377,112</u></b>	<b><u>\$ 2,097,549</u></b>	<b><u>\$ 2,474,660</u></b>

*REQUIRED SUPPLEMENTARY INFORMATION*

**EVOLUTION ACADEMY CHARTER SCHOOL**

## SCHEDULE OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

<b>Expenses</b>	<b>2022</b>	<b>2021</b>
6100 Payroll Costs	\$ 3,801,951	\$ 3,722,645
6200 Professional and Contracted Services	1,591,527	1,287,012
6300 Supplies and Materials	304,791	507,779
6400 Other Operating Costs	798,913	587,436
6500 Debt	697,610	697,790
Total Expenses	<u>\$ 7,194,792</u>	<u>\$ 6,802,662</u>



**EVOLUTION ACADEMY CHARTER SCHOOL**

## SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2022

	<b>Ownership Interest</b>		
	<b>Local</b>	<b>State</b>	<b>Federal</b>
1510 Land and Improvements	\$ -	\$ -	\$ -
1520 Buildings and Improvements	-	14,675,984	-
1539 Furniture and Equipment	-	775,913	53,798
1541 Vehicles	-	197,507	-
1569 Software	-	149,685	-
Total Property and Equipment	<u>\$ -</u>	<u>\$ 15,799,089</u>	<u>\$ 53,798</u>

**EVOLUTION ACADEMY CHARTER SCHOOL**

**SCHEDULE OF RELATED PARTY TRANSACTIONS**

AUGUST 31, 2022

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Cynergy Collaboration Consultants, Inc.	Cynthia Trigg	Spouse	Financial	Cynergy provides janitorial and technology support services to the school and owns the facility of the Spring location. The school pays \$30,000 per month on a 47 year lease beginning August 2013.	Local	Monthly	\$ 908,145	\$0

**EVOLUTION ACADEMY CHARTER SCHOOL**

SCHEDULE OF RELATED PARTY COMPENSATION

AUGUST 31, 2022

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None.

**EVOLUTION ACADEMY CHARTER SCHOOL**

## SCHEDULE OF REAL PROPERTY OWNERSHIP

AUGUST 31, 2022

<u>Description</u>	<u>Property Address</u>	<u>Total Assessed Value</u>	<u>Ownership Interest - Local</u>	<u>Ownership Interest - State</u>	<u>Ownership Interest - Federal</u>
Land	1101 South Sherman Street Richardson, TX 75081	\$ 2,097,670	\$ 2,097,670	\$ -	\$ -
Land	1099 Sherman Street Richardson, TX 75081	994,660	994,660	-	-
BPP		146,380	146,380	-	-
<b>TOTAL</b>		<b>\$ 3,238,710</b>	<b>\$ 3,238,710</b>	<b>\$ -</b>	<b>\$ -</b>

**EVOLUTION ACADEMY CHARTER SCHOOL**

REQUIRED SCHEDULE J-4  
FOR THE YEAR ENDED AUGUST 31, 2022

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**Section A: Compensatory Education Programs**

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs	\$730,682
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$844,831

**Section B: Bilingual Education Programs**

AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	No
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	\$24,233
AP8	List the actual direct program expenditure for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	\$2,716

**EVOLUTION ACADEMY CHARTER SCHOOL****BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2022**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance From Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUE</b>				
Local Support				
5700 Local Revenue	\$ -	\$ -	\$ 15,269	\$ 15,269
Total Local Support	-	-	15,269	15,269
State Program Revenue				
5800 State Revenue	6,834,642	7,286,678	5,019,887	(2,266,791)
Total State Program Revenues	6,834,642	7,286,678	5,019,887	(2,266,791)
Federal Program Revenues				
5900 Federal Revenue	-	3,554,361	1,893,670	(1,660,691)
Total Federal Program Revenues	-	3,554,361	1,893,670	(1,660,691)
Total Revenues	\$ 6,834,642	\$ 10,841,039	\$ 6,928,826	\$ (3,912,213)
<b>EXPENSES</b>				
11 Instruction	\$ 2,350,548	\$ 5,760,041	\$ 3,129,270	\$ 2,630,771
13 Curriculum & Instructional Staff Development	16,950	218,426	242,482	(24,056)
23 School Leadership	645,523	992,396	816,456	175,940
31 Guidance, Counseling, and Evaluation Services	260,941	305,764	419,144	(113,380)
34 Student (Pupil) Transportation	25,500	45,500	106,052	(60,552)
35 Food Service	22,500	97,500	109,863	(12,363)
41 General Administration	389,953	433,901	426,371	7,530
51 Plant Maintenance and Operations	708,700	855,149	948,568	(93,419)
52 Security and Monitoring Services	-	24,123	63,410	(39,287)
53 Data Processing Services	68,221	194,272	155,675	38,597
61 Community Service	-	1,630	1,038	592
71 Debt Services	685,000	685,000	697,610	(12,610)
81 Fundraising	40,000	56,531	78,853	(22,322)
Total Expenses	5,213,836	9,670,233	7,194,792	2,475,441
Change in Net Assets	1,620,806	1,170,806	(265,966)	(1,436,772)
Net Assets, Beginning of the Year	2,474,660	2,474,660	2,474,660	2,474,660
<b>Net Assets, End of the Year</b>	<b>\$ 4,095,466</b>	<b>\$ 3,645,466</b>	<b>\$ 2,208,694</b>	<b>\$ (1,436,772)</b>

*COMPLIANCE AND INTERNAL CONTROL*



**INDEPENDENT AUDITOR'S 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* OR IN A SINGLE AUDIT**

Board of Directors  
Evolution Academy Charter School, Inc.  
Richardson, 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 Evolution Academy Charter School, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2022 and 2021, 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 27, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Evolution Academy Charter School, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Evolution Academy Charter School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Evolution Academy Charter School, Inc.'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 or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Evolution Academy Charter School, Inc.'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 financial statements. 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mitchell T. Fontenote CPA, Inc.*

Port Neches, Texas  
January 27, 2023



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
Evolution Academy Charter School, Inc.  
Richardson, Texas

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Evolution Academy Charter School, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Evolution Academy Charter School, Inc.'s major federal programs for the year ended August 31, 2022. Evolution Academy Charter School, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Evolution Academy Charter School, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Evolution Academy Charter School, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Evolution Academy Charter School, Inc.'s compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Evolution Academy Charter School, Inc.'s federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Evolution Academy Charter School, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a

reasonable user of the report on compliance about Evolution Academy Charter School, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Evolution Academy Charter School, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Evolution Academy Charter School, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Evolution Academy Charter School, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Mitchell T. Fontenote CPA, Inc.*

Port Neches, Texas  
January 27, 2023

**EVOLUTION ACADEMY CHARTER SCHOOL**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2022**

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**Summary of Auditor's Results**

Type of Report of Financial Statements	Unmodified
Internal Control over Financial Reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not consider to be material weaknesses?	None repoted
Noncompliance which is material to the basic financial statements:	No
Internal Control over Major Programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not consider to be material weaknesses?	None repoted
Type of report on compliance with major programs:	Unmodified
Findings and Questioned costs for federal awards as defined in Uniform Guidance	None reported
Dollar threshold considered between Type A and Type B Federal Programs	\$750,000
Was the entity classified as a low-risk auditee in the context of Uniform Guidance?	No
Major Federal Programs	84.425 ESSER

**Findings relating to the financial statements which are  
required to be reported in accordance with Generally  
Accepted Accounting Principles (GAAP)** None

**Findings and Questioned Costs for federal and state awards** None

**EVOLUTION ACADEMY CHARTER SCHOOL****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2022**

<b>Data Control Codes</b>	<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<b>Passed Through Texas Education Agency:</b>				
211	Title I, Part A - Improving Basic Programs	84.010A	21610101057834	2,866
211	Title I, Part A - Improving Basic Programs	84.010A	22610101057834	165,948
211	Teacher Leadership Continuation	84.010A	216101467110003	96,050
211	TTL I 1003 School Improvement	84.010A	22610141057834	42,855
	<i>Total CFDA 84.010A</i>			<u>\$ 307,719</u>
224	*IDEA B Formula	84.027A	226600010578346000	111,700
284	*IDEA B Formula ARP	84.027X	225350010578345000	29,820
	<i>Total CFDA 84.027A</i>			<u>\$ 141,520</u>
	<b>Total Special Education Cluster</b>			<b>\$ 141,520</b>
263	Title III, English Language	84.365A	22-057834	7,202
255	Title II, Part A - Supporting Effective Instruction	84.367A	22694501057834	19,168
244	2020-2022 PTech and ICIA Plan	84.048A	203922017110006	30,000
289	Lone Star STEM Cycle 3 Year 2	84.411B	203929077110003	3,571
289	Lone Star STEM Cycle 3 Year 2	84.411B	203929087110002	3,571
	<i>Total CFDA 84.411B</i>			<u>\$ 7,142</u>
289	Title IV, Part A, Subpart I	84.424A	22680101057834	19,722
279	TCLAS-ESSER III	84.425U	21528042057834	33,084
281	CRRSA ESSER II	84.425D	21521001057834	344,401
282	ARP ESSER III	84.424U	21528001057834	824,900
282	TCLAS High-Quality After-School	84.425U	215280587110053	30,206
	<i>Total CFDA 84.425</i>			<u>\$ 1,232,591</u>
	<b>Total Passed Through Texas Education Agency</b>			<b>\$ 1,765,064</b>
<b>Passed Through Texas Health and Human Services Commission</b>				
289	ELC Reopening Schools	93.323	39352201	25,688
	<b>Total Passed Through Texas Health and Human Services Commission</b>			<b>\$ 25,688</b>
	<b>Total U.S. Department of Education</b>			<b>\$ 1,790,752</b>
<b>U.S. DEPARTMENT OF LABOR</b>				
<b>Passed Through Texas Education Agency:</b>				
289	*2021-2023 P-TECH Planning	17.258	213933017110017	6,249
	<b>Total WIOA Cluster</b>			<b>\$ 6,249</b>
	<b>Total Passed Through Texas Education Agency</b>			<b>\$ 6,249</b>
	<b>Total U.S. Department OF Labor</b>			<b>\$ 6,249</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<b>Passed Through Texas Health and Human Services Commission</b>				
420	Medicaid Administrative Claiming Program - MAC	93.778	22-057834	11,338
	<b>Total Passed Through Texas Health and Human Services Commission</b>			<b>\$ 11,338</b>
	<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 11,338</b>

**EVOLUTION ACADEMY CHARTER SCHOOL**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2022**

<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<b>Passed Through Texas Education Agency:</b>				
240	*School Breakfast Program	10.553	71401201	52,393
240	*National School Lunch Program	10.555	71302001	23,465
<b>Total Passed Through Texas Education Agency</b>				<b>75,858</b>
<b>Total Child Nutrition Cluster</b>				<b>75,858</b>
<b>Total U.S. Department of Agriculture</b>				<b>\$ 75,858</b>
<b>TOTAL EXPENDITURES OF FEDERAL EXPENDITURES</b>				<b>\$ 1,884,197</b>

\*Denotes a clustered program

**EVOLUTION ACADEMY CHARTER SCHOOL**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2022**

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Basis of Presentation

Summary of Significant Accounting Policies

For all Federal programs, the corporation used the net asset classes and codes specified by the Texas Education Agency in the *Module 3: Charter Schools – Financial Accounting and Reporting Non-profit Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

Reconciliation of Schedule of Expenditures of Federal Awards to Statement of Activities:

Total Expenditures reported on SEFA	\$ 1,884,197
Restart Hurricane funds rec'd for prior year expenditures	9,057
Reimburseent for overpament of payroll tax	446
Total Federal Revenue on Statement of Activities	<u>\$ 1,893,700</u>