

**AUDIT REPORT**  
**EVOLUTION ACADEMY**  
**CHARTER SCHOOL**  
**FOR THE YEAR ENDED**  
**AUGUST 31, 2021**

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**CERTIFICATE OF BOARD**

Evolution Academy Charter School, Inc.  
**Name of Charter School**

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)   X   approved    disapproved for the year ended August 31, 2021, at a meeting of the Board of Directors of such school on the   27th   day of January 2022.

  
\_\_\_\_\_  
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.)

# MITCHELL T. FONTENOTE

## CERTIFIED PUBLIC ACCOUNTANT, INC.

### INDEPENDENT AUDITOR'S REPORT

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

#### **Report on the Financial Statements**

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, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

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

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MITCHELL@MTFCPAS.COM

Board of Directors  
Evolution Academy Charter School, Inc.  
Richardson, Texas  
January 24, 2022

***Other Matters***

*Other 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2022, on our consideration of Evolution Academy Charter School, Inc.'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, Inc.'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, Inc.'s internal control over financial reporting and compliance.

*Mitchell T. Fontenote CPA, Inc.*

Port Neches, Texas  
January 24, 2022

*GENERAL-PURPOSE FINANCIAL STATEMENTS*

**EVOLUTION ACADEMY, INC.****STATEMENT OF FINANCIAL POSITION**  
**AUGUST 31, 2021**

<b><u>Assets</u></b>	
Current Assets	
Cash and cash equivalents	\$ 2,151,442
Restricted Cash	1,295,888
Account Receivable	44,495
Due from Federal Agencies	233,888
Due from State	266,556
Prepays	22,097
Total current assets	<u>4,014,366</u>
Property and equipment, net	11,865,960
Other Assets	
Bond Issuance Costs	209,773
Bond Discount	114,760
Total Assets	<u><u>16,204,859</u></u>
<b><u>Liabilities and Net Assets</u></b>	
Current Liabilities	
Accounts payable	\$ 521,314
Accrued payroll and related liabilities	55,882
Accrued Interest	23,172
Current portion of Loan Payable	14,888
Current portion of Capital Lease Payable	86,216
Current portion of Bond Payable	60,000
Total current liabilities	<u>761,472</u>
Long Term Debt	
Loan Payable	49,428
Capital Lease Payable	7,324,299
Bond Payable	5,595,000
Total Liabilities	<u>13,730,199</u>
Net assets	
Without Donor Restrictions	377,112
With Donor Restrictions	2,097,548
Total net assets	<u>2,474,660</u>
Total liabilities and net assets	<u><u>\$ 16,204,859</u></u>

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

**EVOLUTION ACADEMY, INC.****STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and Other Support</b>			
Local support:			
Interest Income	\$ 2,113	-	\$ 2,113
Food Service Activity	60,514	-	60,514
Other	165,285	-	165,285
Total Local Support	227,912	-	227,912
State program revenues			
Foundation School Program	-	6,365,066	6,365,066
Other State Aid	-	160,424	160,424
Total State Program Revenues	-	6,525,490	6,525,490
Federal program revenues			
ESEA Title I, Part A	-	182,239	182,239
ESEA Title I Teacher Leadership	-	96,050	96,050
ESEA Title I Priority & Focus	-	300,000	300,000
IDEA-B Capacity And Formula	-	119,723	119,723
National Breakfast Program	-	8,344	8,344
National School Lunch Program	-	1,523	1,523
ESEA Title II, Part A	-	22,190	22,190
ESSER Grant	-	146,229	146,229
CARES Act	-	144,587	144,587
ESEA Title IV, Part A, Subpart 1	-	7,214	7,214
LoneStar Stem Cycle	-	7,140	7,140
MAC Program	-	7,363	7,363
PPP Loan Forgiveness	-	587,383	587,383
Total Federal Program Revenues	-	1,629,985	1,629,985
Net assets released from restrictions:			
Satisfaction of program restrictions	6,802,662	(6,802,662)	-
Total Revenues	7,030,574	1,352,813	8,383,387
<b>Expenses and Other Losses</b>			
Program services:			
Instruction & Instructional-Related Services	3,326,528	-	3,326,528
Instructional & School Leadership	668,422	-	668,422
Total Program Services	3,994,950	-	3,994,950
Support services:			
Administrative Support Services	391,962	-	391,962
Ancillary Services	3,666	-	3,666
Support Services - Non-Student Based	1,102,791	-	1,102,791
Support Services - Student (Pupil)	561,631	-	561,631
Debt Service	697,789	-	697,789
Fundraising	49,873	-	49,873
Total Support Services	2,807,712	-	2,807,712
Total Expenses and Other Losses	6,802,662	-	6,802,662
Total Change in Net Assets	227,912	1,352,813	1,580,725
Net assets at beginning of year	149,200	744,735	893,935
Net assets at end of year	\$ 377,112	\$ 2,097,548	\$ 2,474,660

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



**EVOLUTION ACADEMY, INC.****STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2021**

	Program Activities	Supporting Activities		Total
	Program Services	General & Administrative	Fundraising	
<b>EXPENSES</b>				
Salaries and Wages	\$ 2,405,736	\$ 835,376	\$ -	\$ 3,241,112
Employee Benefits	41,673	15,273	-	56,946
Payroll Taxes	323,577	101,011	-	424,588
Total Payroll Expenses	<u>2,770,986</u>	<u>951,660</u>	<u>-</u>	<u>3,722,646</u>
Rental Expense	126,000	23,072	-	149,072
Contract Labor	52,384	25,986	39,355	117,725
Maintenance and Repairs	-	341,359	-	341,359
Utilities	-	204,855	-	204,855
Depreciation	-	306,501	-	306,501
Supplies	336,176	17,366	-	353,542
Food	-	74,922	-	74,922
Travel	12,872	2,005	-	14,877
Instructional Materials	77,985	-	-	77,985
Insurance Bonding	99,118	-	-	99,118
Professional Fees and Dues	403,178	70,823	-	474,001
Interest on Debt	-	671,208	-	671,208
Amortization of Bond & Other Debt Related Costs	-	-	-	-
Other Debt Service Fees	-	26,581	-	26,581
Other	116,251	41,501	10,518	168,270
Total Non-payroll Expenses	<u>1,223,964</u>	<u>1,806,179</u>	<u>49,873</u>	<u>3,080,016</u>
<b>TOTAL OF FUNCTIONAL EXPENSES</b>	<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, INC.****STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2021**

Cash flows from operating activities:	
Foundation School Program payments	\$ 6,295,295
Grant payments	1,797,589
Miscellaneous sources	227,912
Payments to vendors for goods and services rendered	(1,974,366)
Payments to charter school personnel for services rendered	(3,723,423)
Interest payments	(657,101)
Net cash provided by operating activities	<u>1,965,906</u>
Cash flows from investing activities:	
Purchase of capital assets	(135,038)
Net cash provided by investing activities	<u>(135,038)</u>
Cash flows from financing activities:	
Principal payment on Revenue Bond	(55,000)
Capital Lease payments	(83,077)
Loan payable payments	(540,632)
Net cash provided by financing activities	<u>(678,709)</u>
Net increase in cash	1,152,159
Cash at beginning of year	<u>2,295,171</u>
Cash at the end of year	<u>\$ 3,447,330</u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	\$ 1,580,725
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation/amortization	323,582
(Increase)Decrease in assets:	
Accounts receivable	(28,889)
Due From Federal Agencies	7,180
Due From State	69,771
Prepaid expenses	(571)
Increase(Decrease) in liabilities:	
Accounts payable	27,438
Accrued liabilities	777
Accrued Interest	(14,107)
Deferred revenue	-
Net cash provided by operating activities	<u>\$ 1,965,906</u>

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

## **EVOLUTION ACADEMY, INC.**

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### NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021

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

The general-purpose financial statements of Evolution Academy, Inc. (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 Presentation***

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

Net Position 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.

## **EVOLUTION ACADEMY, INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

AUGUST 31, 2021

#### ***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.

#### ***Contributions***

The corporation accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### ***New Accounting Pronouncement***

On August 18, 2020, FASB issued ASU 2016-14, Not for Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and lack of consistency in the type of information provided about expenses and investment return. The Association has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

#### ***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.

#### **Fair Value Measurement of Financial Instruments**

The requirements of Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification (ASC) apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB also establishes a fair value hierarchy that categorizes the inputs used in valuation methodologies into three levels.

Inputs may be observable or unobservable. Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. A three-tier hierarchy categorizes the inputs used to measure the fair value as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets for liabilities that the charter holder can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active

**EVOLUTION ACADEMY, INC.****NOTES TO THE FINANCIAL STATEMENTS**

AUGUST 31, 2021

markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

- Level 3 inputs are unobservable inputs for the asset or liability.

Assets measured at fair value at August 31, 2021 are as follows:

	Level 1	Level 2	Level 3	Total
Bond proceeds held in trust:				
Money market mutual funds	\$1,295,876	\$ 0	\$ 0	\$1,295,876
Total assets measured at fair value	\$1,295,876	\$ 0	\$ 0	\$1,295,876

***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.

**Note 2: Capital Assets**

Capital assets at August 31, 2021 were as follows:

Buildings and Improvements	\$ 14,675,984
Equipment	829,711
Vehicles	197,507
Software	149,685
Total property and equipment	15,852,887
Less: Accumulated Depreciation	(3,986,927)
Property and equipment, net	\$ 11,865,960

Capital assets acquired with public funds received by the corporation for the operation for Evolution Academy, Inc. constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for each individual charter school.

**Note 3: 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.

**EVOLUTION ACADEMY, INC.****NOTES TO THE FINANCIAL STATEMENTS**

AUGUST 31, 2021

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, 2021, a total of \$ 17,081 was amortized with a charge to bond issuance expense.

Long-term debt at August 31, 2021 consists of the following:

Note payable to a bank, 9% interest, principal and interest due monthly in 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.	\$ 5,655,000
Less current portion of long-term debt	<u>60,000</u>
Total long-term debt	<u>\$ 5,595,000</u>

Future maturities of long-term debt at August 31, 2021 are as follows:

**Current portion of Bond Payable**

Year Ending August 31,	Principal	Interest	Total
2022	60,000	399,700	459,700

**Bond Payable**

Year Ending August 31,	Principal	Interest	Total
2023	100,000	394,300	494,300
2024	100,000	387,800	487,800
2025-2029	640,000	1,624,575	2,264,575
2030-2034	1,310,000	987,675	2,297,675
2035-2039	1,790,000	503,425	2,293,425
2040	1,655,000	27,950	1,682,950
	<u>\$ 5,595,000</u>	<u>\$ 3,925,725</u>	<u>\$ 9,520,725</u>

Capital Lease

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:

**EVOLUTION ACADEMY, INC.****NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2021**

<b>Current Capital Lease Payable</b>			
<b>Houston Facility Lease</b>			
Year Ending	Principal	Interest	Total
August 31,			
2022	86,216	273,784	360,000
<b>Capital Lease Payable</b>			
<b>Houston Facility Lease</b>			
Year Ending	Principal	Interest	Total
August 31,			
2023	89,473	270,527	360,000
2024	92,853	267,147	360,000
2025	96,362	263,638	360,000
2026-2060	7,045,611	5,554,390	12,600,001
	<u>7,324,299</u>	<u>6,355,702</u>	<u>13,680,001</u>

**Note 4: Pension Plan Obligations**

**Plan Description.** Evolution Academy, Inc. 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	\$ 218,974,205,084
Less: Plan Fiduciary Net Position	(165,416,245,243)
Net Pension Liability	<u>\$ 53,557,959,841</u>
Net Position as Percentage of Total Pension Liability	75.54%

## EVOLUTION ACADEMY, INC.

### NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021

**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 203 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.

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 82.

Contribution Rates		
	2020	2021
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	7.5%	7.5%
Employers	7.7%	7.7%
Charter Holder's Employer Contributions	\$16,637	\$168,306
Charter Holder's Member Contributions	\$36,213	\$247,581
Measurement Year	2019	2020
Charter Holder's NECE On-Behalf	\$172,144	\$108,602

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



## EVOLUTION ACADEMY, INC.

### NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021

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 1.5 percent of the member's salary beginning in fiscal year 2020, 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.

**Actuarial Assumptions.** The total pension liability in the August 31, 2019, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2019 rolled forward to August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term expected Investment Rate of Return	7.25%
Municipal Bond Rate as of August 2020	2.33%
Inflation	2.11%
Salary Increases including inflation	2.30%
Benefit changes during the year	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, 2019. For a full description of these assumptions please see the TRS actuarial valuation report dated November 14, 2019.

**EVOLUTION ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

AUGUST 31, 2021

**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. 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.

Asset Class	Target Allocation*	New Target Allocation**	Long-Term Expected Portfolio Real Rate of Return***
<b>Global Equity</b>			
U.S.	18.00%	3.90%	0.99%
Non-U.S. Developed	13.00%	5.10%	0.92%
Emerging Markets	9.00%	5.60%	0.83%
Private Equity	14.00%	6.70%	1.41%
<b>Stable Value</b>			
Government Bonds	16.00%	-0.70%	-0.05%
Stable Value Hedge	5.00%	1.90%	0.11%
<b>Real Return</b>			
Real Estate	15.00%	4.60%	1.01%
Energy, Natural Resources	6.00%	6.00%	0.42%
<b>Risk Parity</b>			
Risk Parity	8.00%	3.00%	0.30%
<b>Leverage</b>			
Cash	2.00%	-1.50%	-0.03%
Asset Allocation Leverage	-6.00%	-1.30%	0.08%
Inflation Expectation	-		2.00%
Volatility Drag			-0.67%
<b>Total</b>	<b>100.00%</b>		<b>7.33%</b>

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the Net Pension Liability. The discount rate can be found in the 2020 TRS CAFR, Note 11, page 84.

	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	\$ 3,282,679	\$ 2,128,869	\$ 1,191,425

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2021, Evolution Academy, Inc. reported a liability of \$8,549,499 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Evolution Academy Charter School, Inc.. The amount recognized by Evolution Academy, Inc. 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 Evolution Academy, Inc. were as follows:

**EVOLUTION ACADEMY, INC.****NOTES TO THE FINANCIAL STATEMENTS**

AUGUST 31, 2021

School's proportionate share of the collective net pension liability	\$ 2,128,869
State's proportionate share that is associated with the District	<u>1,409,708</u>
Total	<u>\$ 3,538,577</u>

The net pension liability was measured as of August 31, 2019, and rolled forward to August 31, 2020 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, 2019, through August 31, 2020.

At August 31, 2020, the employer's proportion of the collective net pension liability was 0.00003974889% which was an increase of 0.00001985015% from its proportion measured as of August 31, 2019.

**Changes Since the Prior Actuarial Valuation –**

There were no changes in assumptions since the prior measurement date.

**Note 5: Defined Other Post-Employment Benefit Plans**

**Plan Description.** The Evolution Academy, Inc. 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>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; 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	\$ 40,010,833,815
Less: Plan Fiduciary Net Position	<u>(1,996,317,932)</u>
Net OPEB Liability	<u>\$ 38,014,515,883</u>
Net Position as Percentage of Total OPEB Liability	4.99%

**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.

**EVOLUTION ACADEMY, INC.****NOTES TO THE FINANCIAL STATEMENTS**

AUGUST 31, 2021

Eligible non-Medicare retirees and their dependents may 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>2020</u>	<u>2021</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	2020	\$3,527	2021	\$27,814
Member Contributions	2020	\$3,057	2021	\$20,900
NECE On-Behalf Contributions	2019	\$35,198	2020	\$44,327

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.

## EVOLUTION ACADEMY, INC.

### NOTES TO THE FINANCIAL STATEMENTS

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TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$230.8 million in fiscal year 2020 to maintain premiums and benefit levels in the 2020-2021 biennium.

**Actuarial Assumptions.** The actuarial valuation was performed as of August 31, 2019. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2020. The actuarial valuation was determined using the following actuarial assumptions: (Actuarial assumptions can be found in the 2020 TRS CAFR, Note 9, page 75).

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, including rates of retirement, termination, and disability, and most of the economic assumptions including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. 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, 2019, TRS pension actuarial valuation that was rolled forward to August 31, 2020:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

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).

**EVOLUTION ACADEMY, INC.****NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2021**

## Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2019 rolled forward to August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Inflation	0.023
Single Discount Rate	2.33% as of August 31, 2020
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 65% participation prior to age 65 and 40% participation after age 65, 25% of pre-65 retirees are assumed to discontinue coverage at age 65
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost
Salary increases	3.05% to 9.05% including inflation
Ad Hoc Post-Employment	
Benefit Changes	None.

**Discount Rate.** A single discount rate of 2.33% was used to measure the total OPEB liability. There was a decrease of 0.30 percent in the discount rate since the previous year. The Discount Rate can be found in the 2020 TRS CAFR on page 76. 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, 2020, 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 1.33%	Discount Rate 2.33%	1% Increase in Discount Rate 3.33%
School's proportionate share of the net OPEB liability	\$ 1,979,850	\$ 1,649,878	\$ 1,389,248

**EVOLUTION ACADEMY, INC.****NOTES TO THE FINANCIAL STATEMENTS**

AUGUST 31, 2021

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.*** At August 1, 2020, Evolution Academy, Inc. reported a liability of \$9,175,010 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 Evolution Academy, Inc. were as follows:

School's proportionate share of the collective net OPEB liability	\$ 1,649,878
State's proportionate share that is associated with the School	2,217,041
Total	<u>\$ 3,866,919</u>

The Net OPEB Liability was measured as of August 31, 2019, and rolled forward to August 31, 2020 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, 2019, thru August 31, 2020.

At June 30, 2021, the employer's proportion of the collective Net OPEB Liability was 0.004340127% which is an increase from 0.000607545% as of August 31, 2020.

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	\$ 1,477,943	\$ 1,649,878	\$ 2,052,285

**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 2.63% as of August 31, 2019, to 2.33% as of August 31, 2020. This change increased the Total OPEB liability (TOL).
- The participation rate for pre-65 retirees was lowered from 50 percent to 40 percent. This change lowered the Total OPEB Liability.
- The ultimate healthcare trend rate assumption was lowered from 4.50 percent to 4.25 percent as a result of Congress' repeal of the excise (Cadillac) tax on high-cost employer health plans in December 2019. This change lowered the Total OPEB Liability.

**Note 6: Health Care Coverage**

During the year ended 2021 and 2020, employees of the charter school were covered by a Health Insurance Plan (the Plan). The charter school contributed \$405.67 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.

**EVOLUTION ACADEMY, INC.****NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2021****Note 7: Net Assets with Donor Restrictions**

Net Assets with Donor Restrictions for the years ending August 31, 2021 consisted of the following:

Foundation School Program	\$ 2,097,548
	<u>\$ 2,097,548</u>

**Note 8: Leases**

The School leases seven copiers under non-cancelable operating leases that as of January 15, 2018 required monthly rental payments totaling \$2,019.91. The lease term for the four copiers in Richardson is for four (4) years and expires September 2021 and required monthly rental payments totaling \$1,032.36. The lease term for two other copiers in Spring is four (4) years and expires October 2021 and required monthly rental payments totaling \$586.42. The lease term for the copier in Beaumont is four (4) years and expires January 2022 and required a monthly rental payment in the amount of \$401.13. The School also leases a campus facility in Beaumont. The lease term for the Beaumont campus is renewable year to year.

Future minimum payments under the non-cancelable operating leases as of August 31, 2021 are as follows:

2022	<u>2,592</u>
	<u>\$ 2,592</u>

Rental expense for all operating leases for the twelve months ended August 31, 2021 was \$149,072.

**Note 9: Related Party Transactions**

The corporation paid Cynergy Collaboration Consultants, Inc., a company owned by the spouse of the charter school's CEO, \$895,192 for the year ended August 31, 2021. 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 10: 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, the charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.



**EVOLUTION ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2021**

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**Note 11: Budgetary Variances**

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

- Function 52 – the variance is due to the purchase of metal detectors at all 3 of our locations in late August 2021. The original budget included amounts for miscellaneous contracted services but the funds were budgeted to function 11. The budget was not amended to reflect the change/purchase made at the end of the year.
- Function 53 – the variance is due to the additional salary expenses paid under two federal grants. Funds for salary expenses were included in the original budget under Function 11. The budget was not amended to reflect the change made at the end of the year.

**Note 12: Legal**

None.

*SUPPLEMENTARY INFORMATION*

**EVOLUTION ACADEMY, INC.****SCHEDULE OF ACTIVITIES**

FOR THE YEAR ENDED AUGUST 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>			
Local support:			
5740 Other Revenues from Local Sources	\$ 167,398	\$ -	\$ 167,398
5750 Revenues from Cocurricular and Enterprising	60,514	-	60,514
Total local support	227,912	-	227,912
State program revenues			
5810 Foundation School Program Act Revenues	-	6,365,066	6,365,066
5820 State Program Revenues Distributed	-	143,884	143,884
5830 State Revenues from State of Texas Government	-	16,540	16,540
Total state program revenues	-	6,525,490	6,525,490
Federal program revenues:			
5920 Federal Revenues Distributed by the Texas	-	1,035,239	1,035,239
5930 MAC Program	-	7,363	7,363
5940 PPP Loan Forgiveness	-	587,383	587,383
Total federal program revenues	-	1,629,985	1,629,985
Net assets released from restrictions:			
Restrictions satisfied by payments	6,802,662	(6,802,662)	-
Total Revenues	7,030,574	1,352,813	8,383,387
<b>Expenses</b>			
11 Instruction	3,223,387	-	3,223,387
13 Curriculum Development and Instructional	103,141	-	103,141
23 School Leadership	668,422	-	668,422
31 Guidance, Counseling & Evaluation Services	368,476	-	368,476
34 Student (Pupil Services)	57,091	-	57,091
35 Food Services	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 Services	3,666	-	3,666
71 Debt Services	697,789	-	697,789
81 Fundraising	49,873	-	49,873
Total expenses	6,802,662	-	6,802,662
Change in net assets	227,912	1,352,813	1,580,725
Net assets at beginning of year	149,200	744,735	893,935
Net assets at end of year	\$ 377,112	\$ 2,097,548	\$ 2,474,660

**EVOLUTION ACADEMY, INC.**

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SCHEDULE OF EXPENDITURES  
FOR THE YEAR ENDED AUGUST 31, 2021

<b>Expenses</b>			
6100	Payroll Costs	\$	3,722,646
6200	Professional and Contracted Services		1,287,012
6300	Supplies and Materials		507,779
6400	Other Operating Costs		587,436
6500	Debt		697,789
			<hr/>
	Total Expenditures	\$	<u>6,802,662</u>

**EVOLUTION ACADEMY, INC.****SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED AUGUST 31, 2021**

		Ownership Interest			
		Local	State	Federal	Total
1110	Cash	\$ 2,752	\$ 2,148,690	\$ -	\$ 2,151,442
1510	Land and Improvements	-	-	-	-
1520	Buildings and Improvements	-	14,675,984	-	14,675,984
1539	Furniture and Equipment	-	775,913	53,798	829,711
1541	Vehicles	-	197,507	-	197,507
1569	Software	-	149,685	-	149,685
Total Capital Assets		<u>\$ 2,752</u>	<u>\$ 17,947,779</u>	<u>\$ 53,798</u>	<u>\$ 18,004,329</u>

**EVOLUTION ACADEMY, INC.****SCHEDULE OF RELATED PARTY TRANSACTIONS  
FOR THE YEAR ENDED AUGUST 31, 2021**

<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	\$895,192	0

**EVOLUTION ACADEMY, INC.****SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST  
FOR THE YEAR ENDED AUGUST 31, 2021**

<b>Description</b>	<b>Property Address</b>	<b>Total Assessed Value</b>	<b>Ownership Interest - Local</b>	<b>Ownership Interest - State</b>	<b>Ownership Interest - Federal</b>
Land	1101 South Sherman St Richardson, TX 75081	\$ 2,097,970	\$ 2,097,970	\$ -	\$ -
Land	1099 Sherman St Richardson, TX 75081	\$ 994,660	\$ 994,660	\$ -	\$ -
<b>Total</b>		<b>\$ 3,092,630</b>	<b>\$ 3,092,630</b>	<b>\$ -</b>	<b>\$ -</b>

**EVOLUTION ACADEMY, INC.****SCHEDULE OF COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM  
FOR THE YEAR ENDED AUGUST 31, 2021**

<b>Data Codes</b>	<b>Section A: Compensatory Education Programs</b>	<b>Responses</b>
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 during the district's fiscal year.	\$846,328
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)	\$1,008,391
	<b>Section B: Bilingual Education Programs</b>	
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.	\$24,726
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	\$0



**EVOLUTION ACADEMY, INC.**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues</b>				
Local support:				
5740 Other Revenues from Local Sources	\$ -	\$ -	\$ 167,398	\$ 167,398
5750 Revenues from Cocurricular and Enterprising	-	60,514	60,514	-
Total local support	-	60,514	227,912	167,398
State program revenues				
5810 Foundation School Program Act Revenues	5,183,615	6,307,278	6,365,066	57,788
5820 State Program Revenues Distributed by	-	481,776	143,884	(337,892)
5830 State Revenues from State of Texas Government	-	-	16,540	16,540
Total state program revenues	5,183,615	6,789,054	6,525,490	(263,564)
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas	-	1,014,863	1,035,239	20,376
5930 MAC Program	-	-	7,363	7,363
5940 PPP Loan Forgiveness	-	-	587,383	587,383
Total federal program revenues	-	1,014,863	1,629,985	615,122
Total Revenues	5,183,615	7,864,431	8,383,387	518,956
<b>Expenses</b>				
11 Instruction	2,179,272	3,369,730	3,223,387	(146,343)
13 Curriculum Development and Instructional	25,350	160,077	103,141	(56,936)
23 School Leadership	629,089	660,281	668,422	8,141
31 Guidance, Counseling & Evaluation Services	244,651	359,361	368,476	9,115
34 Student (Pupil Services)	52,086	75,086	57,091	(17,995)
35 Food Services	78,297	143,310	136,064	(7,246)
41 General Administration	385,037	436,300	391,962	(44,338)
51 Plant Maintenance and Operations	781,450	911,450	886,505	(24,945)
52 Security and Monitoring Services	49,567	40,067	54,942	14,875
53 Data Processing Services	105,232	134,120	161,344	27,224
61 Community Services	250	3,894	3,666	(228)
71 Debt Services	641,000	642,000	697,789	55,789
81 Fundraising	11,500	48,500	49,873	1,373
Total expenses	5,182,781	6,984,176	6,802,662	(181,514)
Change in net assets	834	880,255	1,580,725	700,470
Net assets at beginning of year	893,935	893,935	893,935	-
Net assets at end of year	\$ 894,769	\$ 1,774,190	\$ 2,474,660	\$ 700,470

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

**OVERALL COMPLIANCE AND INTERNAL CONTROLS**

# MITCHELL T. FONTENOTE

## CERTIFIED PUBLIC ACCOUNTANT, INC.

### 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*

Board of Directors  
Evolution Academy Charter School  
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 (a nonprofit organization), which comprise the statement of financial position as of August 31, 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 24, 2022.

#### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Evolution Academy Charter School'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*.

Board of Directors  
Evolution Academy Charter School, Inc.  
Richardson, Texas  
January 24, 2022

**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 24, 2022

# MITCHELL T. FONTENOTE

## CERTIFIED PUBLIC ACCOUNTANT, INC.

### 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  
Richardson, Texas

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

We have audited Evolution Academy Charter School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Evolution Academy Charter School's major federal programs for the year ended August 31, 2021. Evolution Academy Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Evolution Academy Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Evolution Academy Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Evolution Academy Charter School's compliance.

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

In our opinion, Evolution Academy Charter School 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, 2021.

#### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items. Our opinion on each major federal program is not modified with respect to these matters.

Board of Directors  
Evolution Academy Charter School, Inc.  
Richardson, Texas  
January 24, 2022

Evolution Academy Charter School's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Evolution Academy Charter School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Evolution Academy Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Evolution Academy Charter School internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Evolution Academy Charter School's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 24, 2022

**EVOLUTION ACADEMY, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2021**

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**Summary of Auditor's Results**

Type of Report of Financial Statements	Unqualified
Internal Control over Financial Reporting: Material weakness(es) identified?	No
Noncompliance which is material to the basic financial statements:	None Reported
Internal Control over Major Programs: Material weakness(es) identified?	No
Reportable condition(s) identified are not considered to be material weakness(es)?	None Reported
Noncompliance which is material to the basic financial statements:	None
Type of report on compliance with major programs:	Unqualified
Findings and Questioned costs for federal awards as defined in Uniform Guidance	None
Dollar threshold considered between Type A and Type B Federal Programs	\$750,000
Low Risk auditee statements	The District was classified as a low-risk auditee in the context of Uniform Guidance
Major Federal Programs	84.010 - TTL I 1003 School Improvement 84.010 - Title I, Part A - Improving Basic Programs 84.010 - Title I - Teacher Leadership Continuaty
<b><u>Findings relating to the financial statements which are required to be reported in accordance with Generally Accepted Accounting Principles (GAAP)</u></b>	None
<b><u>Findings and Questioned Costs for federal and state awards</u></b>	None

**EVOLUTION ACADEMY, INC.****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2021**

<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>Pass Through Texas Education Agency:</b>			
TTL I 1003 School Improvement	84.010A	21610141057834	\$ 300,000
Title I, Part A - Improving Basic Programs	84.010A	20610101057834	1,160
Title I, Part A - Improving Basic Programs	84.010A	21610101057834	181,461
Title I - Teacher Leadership Continuaty	84.010A	20610146711003	96,050
<i>Total CFDA 84.010A</i>			<u>\$ 578,671</u>
IDEA B Formula	84.027A	216600010578346000	119,723
Title II, Part A - Supporting Effective Instruction	84.367A	21694501057834	22,190
Title IV, Part A, Subpart I	84.424A	21680101057834	7,214
Elem & Secondary School Emergency Relief Fd COVID-19	84.425D	20521001057834	146,230
Prior Purchase Reimbursement Program COVID-19	84.425D	52102135	144,587
<i>Total CFDA 84.425D</i>			<u>\$ 290,817</u>
2020-2021 Lone Star STEM Cycle	84.411B	203929027110004	3,570
2020-2021 Lone Star STEM Cycle	84.411B	203929047110002	3,570
<i>Total CFDA 84.411B</i>			<u>\$ 7,140</u>
<b>Total U.S. Department of Education</b>			<b>\$ 1,025,755</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<b>Pass Through Texas Education Agency:</b>			
School Breakfast Program*	10.553	71401201	8,344
National School Lunch Program*	10.555	71301101	1,523
<b>Total U.S. Department of Agriculture</b>			<u>\$ 9,867</u>
<b>TOTAL EXPENDITURES OF FEDERAL EXPENDITURES</b>			<b>\$ 1,035,622</b>



## **EVOLUTION ACADEMY, INC.**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2021**

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#### Basis of Presentation

#### Summary of Significant Accounting Policies

For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*.

- **General Fund** - is used to account for, among other things, resources related to the United States Department of Defense ROTC program and the United States Department of Education's Impact Aid.
- **Special Revenue Funds** - are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund or, in some instances, in the General Fund which are Governmental Fund type funds.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

The period of performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Performance of Federal Funds, 3 CFR Section 200.343(b).

Assistance Listing numbers for commodity assistance are the Assistance Listing numbers of the programs under which USDA donated the commodities.

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.