

AUDIT REPORT

**EVOLUTION ACADEMY
CHARTER SCHOOL**

**FOR THE YEAR ENDED
AUGUST 31, 2016**

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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, 2016, at a meeting of the Board of Directors of such school on the 27th day of January , 2017.



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

January 17, 2017

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. which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, functional expenses, 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.

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Board of Directors
Evolution Academy Charter School, Inc.
Richardson, Texas
January 17, 2017

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, 2016, and the changes in its Net Position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented on pages 13 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2017, on our consideration of Evolution Academy Charter School, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Evolution Academy Charter School, Inc.'s internal control over financial reporting and compliance.

Mitchell T Fontenote CPA, Inc.

GENERAL-PURPOSE FINANCIAL STATEMENTS

EVOLUTION ACADEMY, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2016

<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 194,510
Restricted Cash	961,575
Account Receivable	44,882
Due from State	406,716
Prepays	10,328
Total current assets	<u>1,618,011</u>
Property and equipment, net	13,320,542
Other Assets	
Bond Issuance Costs	264,977
Bond Discount	144,960
Total Assets	<u><u>15,348,490</u></u>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	894,839
Accrued payroll and related liabilities	79,896
Due to Federal Agency	9,236
Deferred revenue	10,101
Capital Lease Payable-Current	169,689
Compass Bank LOC	37,985
Note Payables	37,411
Bond Payable-Current	40,000
Total current liabilities	<u>1,279,157</u>
Long Term Liability	
Capital Lease Payable	7,725,113
Bond Payable	5,845,000
Total Liabilities	<u>14,849,270</u>
Net assets	
Unrestricted	-
Temporarily restricted	499,220
Total net assets	<u>499,220</u>
Total liabilities and net assets	<u><u>\$ 15,348,490</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, 2016**

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support			
Local support:			
Contributions	\$ -	\$ -	\$ -
Interest Income	335	-	335
Other	43,458	-	43,458
Total Local Support	43,793	-	43,793
State program revenues			
Foundation School Program	-	5,867,010	5,867,010
Textbooks	-	170,651	170,651
Texas Public Financing Authority	-	61,133	61,133
Total State Program Revenues	-	6,098,794	6,098,794
Federal program revenues			
ESEA Title I, Part A	-	103,153	103,153
ESEA Title I Priority & Focus	-	153,808	153,808
IDEA-B CAPACITY AND FORMULA	-	107,752	107,752
National Breakfast Program	-	50,362	50,362
National School Lunch Program	-	44,356	44,356
ESEA Title II, Part A	-	21,409	21,409
Title III	-	714	714
Total Federal Program Revenues	-	481,554	481,554
Net assets released from restrictions:			
Satisfaction of program restrictions	6,899,836	(6,899,836)	-
	6,943,629	(319,488)	6,624,141
Expenses and Other Losses			
Program services:			
Instruction & Institutional-Related Services	3,400,307	-	3,400,307
Instruction & School Leadership	576,728	-	576,728
Total Program Services	3,977,035	-	3,977,035
Support services:			
Administrative Support Services	406,577	-	406,577
Ancillary Services	-	-	-
Support Services - Non-Student Based	1,450,213	-	1,450,213
Support Services - Student (Pupil)	415,632	-	415,632
Ancillary Services	760,606	-	760,606
Total Support Services	7,010,063	-	7,010,063
Total Change in Net Assets	(66,434)	(319,488)	(385,922)
Net assets at beginning of year	66,434	1,087,938	1,154,372
Prior Period Adjustment	-	(269,230)	(269,230)
Net assets at end of year	\$ -	\$ 499,220	\$ 499,220

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

EVOLUTION ACADEMY, INC.**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016**

Cash flows from operating activities:	
Foundation School Program payments	\$ 5,849,553
Grant payments	474,832
Miscellaneous sources	52,135
Payments to vendors for goods and services rendered	(1,506,812)
Payments to charter school personnel for services rendered	(3,906,437)
Interest payments	(747,598)
Net cash provided by operating activities	<u>215,673</u>
Cash flows from financing activities:	
Repayment of Bond principal	(35,000)
Capital Lease payments	(161,243)
Repayment on LOC/ Note payable	(34,975)
Purchased capital assets	(6,400)
	<u>(237,618)</u>
Net increase in cash	(21,945)
Cash at beginning of year	<u>1,178,030</u>
Cash at the end of year	<u>\$ 1,156,085</u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	\$ (385,922)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation/amortization	474,588
(Increase)Decrease in assets:	
Accounts receivable	(188,523)
Prepaid expenses	(4,987)
Other Assets	-
Increase(Decrease) in liabilities:	
Accounts payable	310,719
Accrued liabilities	9,798
Due to Federal Agency	-
Deferred revenue	-
Net cash provided by operating activities	<u>\$ 215,673</u>

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

EVOLUTION ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

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, 2019). As of April 29, 2013, the commissioner approved the amendment request to add campuses to be known as Evolution Academy Spring, Evolution Academy Beaumont and Evolution Academy Port Arthur effective July 1, 2013; Port Arthur campus is still pending. 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. Accordingly, management made certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Net Position and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are released from restriction (re-classed) and shown as unrestricted revenues. Accordingly, Net Position of the Organization and changes therein are classified and reported as follows:

Unrestricted - Net Position that are not subject to donor-imposed stipulations.

Temporarily restricted - Net Position subject to donor-imposed stipulations that may or will be met, either by actions of the corporation, the charter school and/or the passage of time. When a restriction expires, temporarily restricted Net Position are reclassified to unrestricted Net Position and reported in the statement of activities as Net Position released from restrictions.

EVOLUTION ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

Note 1: Summary of Significant Accounting Policies (cont'd)

Permanently restricted - Net Position required to be maintained in perpetuity with only the income to be used for the Academy's activities due to donor-imposed restrictions.

Contributions

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

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

Cash and Cash Equivalents

For financial statement purposes, the Corporation considers all highly liquid investment instruments purchased with original maturities 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 five 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 Position at fair value at the date of donation, which is then treated as cost.

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.

Concentration

Although it is not likely that a severe impact will occur in the near term, there is a concentration in revenue of 100% from the Texas Education Agency and the U.S. Department of Education at the financial statement date.

Note 2: Due from State

State

FSP 269,649

EVOLUTION ACADEMY, INC.**NOTES TO THE FINANCIAL STATEMENTS**
AUGUST 31, 2016**Note 3: Capital Assets**

Capital assets at August 31, 2016 were as follows:

Leasehold Improvements	\$ 20,000
Buildings and Improvements	14,641,760
Equipment	740,566
Vehicles	74,834
Software	149,685
Less: Accum. Depr. & Amort.	<u>(2,306,303)</u>
Total Capital Assets	<u>\$ 13,320,542</u>

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 4: Debt

During the year ended August 31, 2011, the corporation issued revenue bonds in the aggregate amount of \$6,040,000, designated Evolution Charter School, Inc. Series 2010A (the "Series 2010A, 2010B, 2010Q Bonds"). The proceeds of the bonds is to be used to finance and refinance the cost of certain land, building, facilities and improvements on the campus of Evolution 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, 2016, a total of \$ 17,081 was amortized with a charge to bond issuance expense.

Future bonded debt service requirements are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	40,000	420,400	460,400
2018	40,000	416,800	456,800
2019	45,000	413,200	458,200
2020	50,000	409,150	459,150
2021	55,000	404,650	459,650
2022-2026	460,000	1,937,900	2,397,900
2027-2031	2,140,000	1,312,425	3,452,425
2032-2036	1,485,000	811,850	2,296,850
2037-2040	1,570,000	263,253	1,833,253
	<u>\$ 5,885,000</u>	<u>\$ 6,389,628</u>	<u>\$ 12,274,628</u>

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

AUGUST 31, 2016

Note 4: Debt (cont'd)*Capital Lease*

The School entered into a finance agreement for computer equipment on September 1, 2013, with an original balance \$360,439 for 48 months with a variable interest rate. Interest and principal payments are due as follows:

Year Ending August 31,	Principal	Interest	Total
2017	98,065	3,299	101,364
	<u>\$ 98,065</u>	<u>\$ 3,299</u>	<u>\$ 101,364</u>

Note 5: Pension Plan Obligations*Plan Description*

The charter school contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

The risk of participating in this multiplayer defined benefit pension plan is different from a single-employer plan because: (a) the School is a legally separate entity from the State of Texas, (b) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, and (d) if an entity chooses to stop participating in the multiemployer plan, there is no withdrawal liability to the plan. The Academy has no plans to withdraw from its multiemployer plan.

The following present information about the Academy's multiemployer pension plan as of and for the year ended August 31, 2016:

Name of Pension Fund	EIN and Plan Number	Total Plan Assets	Accumulated Benefit Obligation	% Funded
TRS	N/A	\$149,780,062,000	\$163,887,375,000	78.43%
Collective Bargaining Agreement	School Contributions	More than 5% of Total Contributions	FIP/RP Status	Surcharge Imposed
N/A	\$213,522	No	N/A	Yes

EVOLUTION ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

Note 5: Pension Plan Obligations (cont'd)

Funding Policy

Under provisions in State law, plan members are required to contribute 7.2% of their annual covered salary for retirement and the State of Texas contributes an amount equal to 6.80% of the covered payroll of the School's employees compensated with State funds for retirement. The School contributes 6.80% of the covered payroll of employees compensated with Federal funds for retirement. There have been no changes that would affect the comparison of employer contributions from year to year. For the fiscal year August 31, 2016, the School's employees contributed a total of \$251,965 to the plan for retirement.

Note 6: Health Care Coverage

During the year ended August 31, 2016, employees of the School were covered by a Health Insurance Plan (the Plan). Employees, at their option, authorized payroll withholding to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 7: Temporarily Restricted Net Position

Temporarily restricted Net Position for the year ended August 31, 2016 consisted of the following:

State Funded Temporarily Restricted	\$ 362,153
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Note 8: Operating Leases

The School leases four copiers under non-cancelable operating leases that as of September 13, 2015 required monthly rental payments totaling \$1,032.36. The lease term for the four copiers is for four (4) years and expires September 2019. The lease term for two other copiers is four (4) years and expires September 2017 and required monthly rental payments totaling \$645.43. The School also leases a campus facility in Beaumont. The lease term for the Beaumont campus is renewable year to year. The future minimum rental payments under the operating leases with remaining terms are as follows:

Twelve Months Ended August 31,	Amount
2017	146,133
2018	13,034
2019	12,388
	<u>\$ 171,556</u>

Rental expense for all operating leases for the twelve months ended August 31, 2016 was \$146,133.

EVOLUTION ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

Note 9: 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.

Note 10: Prior Period Adjustment

There was a prior period adjustment totaling \$269,230 to record a Capital Lease payable for the Spring campus building facility that was not properly recorded in the prior three fiscal years.

Note 11: Budgetary Variances

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

- Function 13 – The variance greater than 10% in function 13 is due primarily to increased travel and training expenses incurred in August for district-wide staff training held in Richardson, TX. .
- Function 31 – The variance greater than 10% in function 31 is primarily due to an underestimation of personnel/benefit expenses at the various campuses and fees for comprehensive special education services, ARDS, and counseling services. Budgeted amounts were not adequately adjusted.
- Function 51 – The variance greater than 10% in function 51 is due to the following:
 - The reclassification and capitalization of operating lease payments resulted in a significant increase in depreciation expense for the fiscal year.
 - The Houston location had an increase in utility and janitorial costs for which the budget was not adequately adjusted.
 - We experienced an unexpected reduction in our annual ERATE reimbursement compared to previous years, which resulted in EACS having to cover an increased amount of utilities expenses out of the general budget.
- Function 71 - The variance greater than 10% in function 71 is due to the reclassification and capitalization of operating lease payments which resulted in the recognition of additional interest expense not previously budgeted.

SUPPLEMENTARY INFORMATION

EVOLUTION ACADEMY, INC.**SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2016**

	Unrestricted	Restricted	Total
Revenues			
Local support:			
5740 Other Revenues from Local Sources	\$ 43,118	\$ -	\$ 43,118
5750 Revenues from Cocurricular and Enterprising	675	-	675
Total local support	43,793	-	43,793
State program revenues			
5810 Foundation School Program Act Revenues	-	5,867,010	5,867,010
5820 State Program Revenues Distributed by Texas Education Agency		170,651	170,651
5830 State Program Revenues Distributed by Other than Texas Education Agency	-	61,133	61,133
Total state program revenues	-	6,098,794	6,098,794
Federal program revenues:			
5920 Federal Revenues Distributed by the Texas Education Agency	-	480,840	480,840
5930 Title III	-	714	714
Total federal program revenues	-	481,554	481,554
Net assets released from restrictions:			
Restrictions satisfied by payments	6,899,836	(6,899,836)	-
Total Revenues	6,943,629	(319,488)	6,624,141
Expenses			
11 Instruction	3,348,290	-	3,348,290
13 Curriculum Development and Instructional Staff Development	52,017	-	52,017
23 School Leadership	576,728	-	576,728
31 Guidance, Counseling and Evaluation Services	171,874	-	171,874
32 Social Work Services	-	-	-
33 Health Services	-	-	-
34 Student (Pupil Services)	36,641	-	36,641
35 Food Services	207,117	-	207,117
41 General Administration	406,577	-	406,577
51 Plant Maintenance and Operations	986,323	-	986,323
52 Security and Monitoring Services	148,775	-	148,775
53 Data Processing Services	315,115	-	315,115
71 Debt Services	760,606	-	760,606
Total expenses	7,010,063	-	7,010,063
Change in net assets	(66,434)	(319,488)	(385,922)
Net assets at beginning of year	66,434	1,087,938	1,154,372
Prior period adjustments	-	(269,230)	(269,230)
Net assets at end of year	\$ -	\$ 499,220	\$ 499,220

EVOLUTION ACADEMY, INC.

SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED AUGUST 31, 2016

Expenses

6100	Payroll Costs	\$ 3,916,235
6200	Professional and Contracted Services	1,265,973
6300	Supplies and Materials	242,569
6400	Other Operating Costs	820,609
6500	Debt	<u>764,677</u>
	Total Expenditures	<u>\$ 7,010,063</u>

EVOLUTION ACADEMY, INC.**SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2016**

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 358	\$ 194,152	\$ -
1510	Land and Improvements	-	-	-
1520	Buildings and Improvements	-	14,587,962	73,798
1531	Vehicles	-	74,834	-
1539	Furniture and Equipment	-	740,566	-
1569	Software	-	149,685	-
Total Capital Assets		<u>\$ 358</u>	<u>\$ 15,747,199</u>	<u>\$ 73,798</u>

EVOLUTION ACADEMY, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

		Budgeted Amounts		Actual	Variance from
		Original	Final	Amounts	Final Budget
Revenues					
Local support:					
5740	Other Revenues from Local Sources	\$ -	\$ 36,000	\$ 43,118	\$ 7,118
5750	Revenues from Cocurricular and Enterprising	-	675	675	-
Total local support		-	36,675	43,793	7,118
State program revenues					
5810	Foundation School Program Act Revenues	5,563,914	5,691,743	5,867,010	175,267
5820	State Program Revenues Distributed Texas Education Agency	-	390	170,651	170,261
5830	State Program Revenues Distributed by Other than by Texas Education Agency	-	-	61,133	61,133
Total state program revenues		5,563,914	5,692,133	6,098,794	406,661
Federal program revenues:					
5920	Federal Revenues Distributed by the Texas Education Agency	-	484,797	480,840	(3,957)
5930	Title III	-	-	714	714
Total federal program revenues		-	484,797	481,554	(3,243)
Total Revenues		5,563,914	6,213,605	6,624,141	410,536
Expenses					
11	Instruction	2,876,963	3,633,592	3,348,290	(285,302)
13	Curriculum Development and Instructional Staff Development	15,250	34,900	52,017	17,117
23	School Leadership	562,650	586,532	576,728	(9,804)
31	Guidance, Counseling and Evaluation Services	86,400	148,837	171,874	23,037
34	Student (Pupil Services)		37,000	36,641	(359)
35	Food Services	73,320	199,491	207,117	7,626
41	General Administration	384,800	395,800	406,577	10,777
51	Plant Maintenance and Operations	672,800	615,180	986,323	371,143
52	Security and Monitoring Services	84,700	147,375	148,775	1,400
53	Data Processing Services	293,900	313,875	315,115	1,240
61	Community Services			-	-
71	Debt Services	453,500	448,500	760,606	312,106
Total expenses		5,504,283	6,561,082	7,010,063	448,981
Change in net assets		59,631	(347,477)	(385,922)	(38,445)
Net assets at beginning of year		1,154,372	1,154,372	1,154,372	-
Prior period adjustments		-	-	(269,230)	(269,230)
Net assets at end of year		\$ 1,214,003	\$ 806,895	\$ 499,220	\$ (307,675)

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

OVERALL COMPLIANCE AND INTERNAL CONTROLS

MITCHELL T. FONTENOTE

CERTIFIED PUBLIC ACCOUNTANT

January 17, 2017

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL 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 ("the Academy") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2017.

Internal Control Over Financial Reporting

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

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

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

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MITCHELL@MITCHELLTFONTENOTECPA.COM

Board of Directors
Evolution Academy Charter School, Inc.
Richardson, Texas
January 17, 2017

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mitchell T Fontenote CPA, Inc.