

**INDEPENDENT
AUDITOR'S REPORT**

**EVOLUTION ACADEMY CHARTER
SCHOOL
THE CHARTER HOLDER**

**FOR THE YEAR ENDED
AUGUST 31, 2023 AND 2022**

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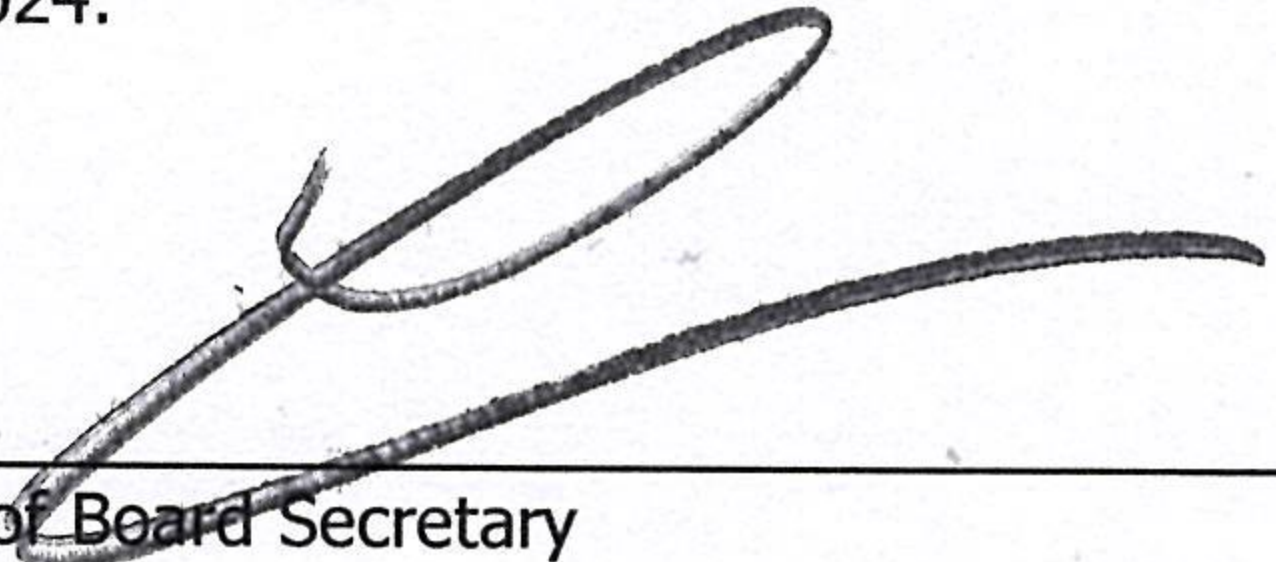
CERTIFICATE OF BOARD

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

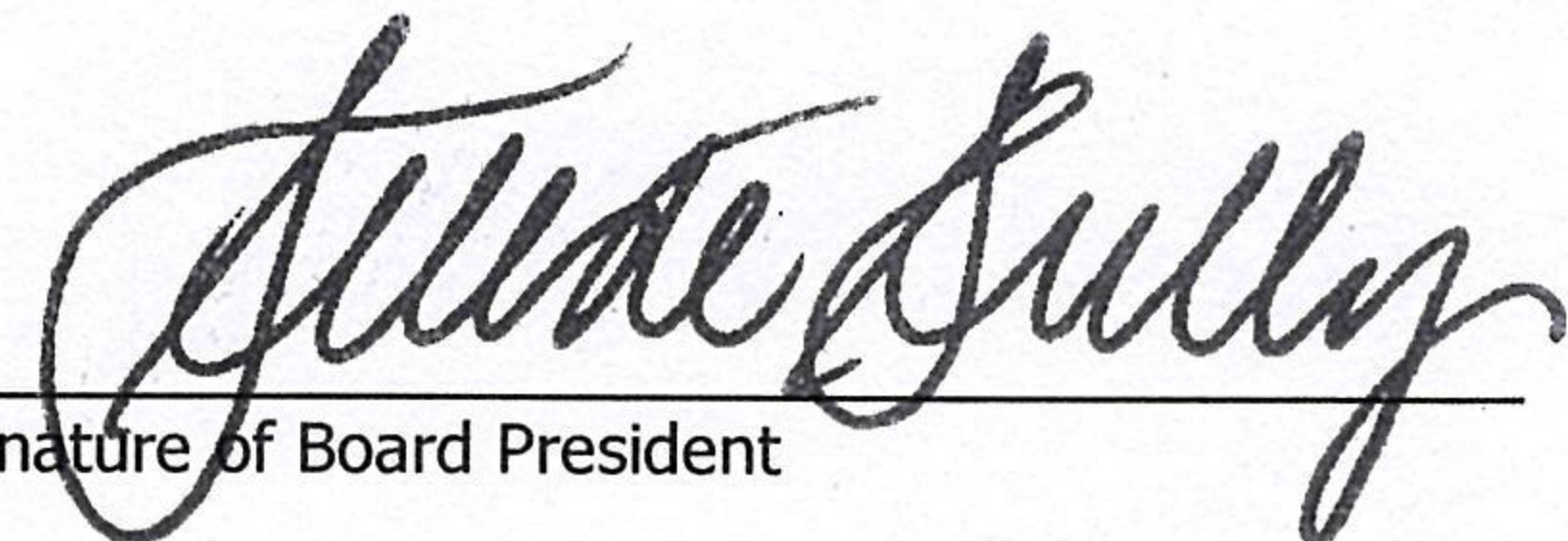
Dallas
County

057-834
Co.-District Number

We, the undersigned, certify that the attached annual financial reports of the above named charter school were reviewed and (check one) approved disapproved for the year ended August 31, 2023, at a meeting of the Board of Directors of such school on the 26th day of January 2024.



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 CPA, INC.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Evolution Academy Charter School, Inc. (a nonprofit organization), which comprise the statement of financial positions as of August 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Evolution Academy Charter School, Inc. as of August 31, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Evolution Academy Charter School, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Evolution Academy Charter School, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2024, 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. Fontenot CPA, Inc.

Port Neches, Texas
January 15, 2024

GENERAL-PURPOSE FINANCIAL STATEMENTS

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

STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,088,016	\$ 1,298,620
Restricted Cash	1,317,458	1,345,012
Accounts Receivable	14,504	14,504
Due from State	483,848	295,209
Due from Federal Agencies	344,568	686,301
Prepaid expenses	45,062	56,729
Total Current Assets	<u>3,293,456</u>	<u>3,696,375</u>
Property and Equipment		
Furniture and equipment	15,852,887	15,852,887
Less: accumulated depreciation	(4,616,694)	(4,302,524)
Total Property and Equipment	<u>11,236,193</u>	<u>11,550,363</u>
Other Assets		
Bond Issuance Costs	187,693	198,733
Bond Discount	102,680	108,720
Total Restricted Assets	<u>290,373</u>	<u>307,453</u>
Total Assets	<u>\$ 14,820,022</u>	<u>\$ 15,554,191</u>
<u>LIABILITIES & NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 137,999	\$ 266,244
Accrued payroll and related liabilities	73,904	76,694
Accrued interest	2,316	32,741
Current portion of loan payable	16,013	15,389
Current portion of capital lease	92,854	89,473
Current portion of notes payable	100,000	100,000
Total Current Liabilities	<u>423,086</u>	<u>580,541</u>
Long-Term Debt		
Loan Payable	20,003	35,130
Capital Lease	7,141,995	7,234,826
Bond Payable	5,395,000	5,495,000
Total Long-Term Debt	<u>12,556,998</u>	<u>12,764,956</u>
Total Liabilities	<u>12,980,084</u>	<u>13,345,497</u>
Net Assets		
Without donor restrictions	503,190	392,381
With donor restrictions	1,336,748	1,816,313
Total Net Assets	<u>1,839,938</u>	<u>2,208,694</u>
Total Liabilities and Net Assets	<u>\$ 14,820,022</u>	<u>\$ 15,554,191</u>

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

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

STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

	Without Donor Restrictions	With Donor Restrictions	2023 Totals
REVENUE			
Local Support			
Bank Interest	\$ 4,290	\$ -	\$ 4,290
Contributions	90,890	-	90,890
Food Service Activity	11,869	-	11,869
Other Revenue from Local Sources	3,760	-	3,760
Total Local Support	<u>110,809</u>	<u>-</u>	<u>110,809</u>
State Program Revenue			
Foundation School Program Revenues	-	5,578,096	5,578,096
State Program Revenues Distributed by TEA	-	517,597	517,597
Total State Program Revenues	<u>-</u>	<u>6,095,693</u>	<u>6,095,693</u>
Federal Program Revenues			
MAC Program	-	10,744	10,744
National Breakfast Program	-	57,653	57,653
National School Lunch Program	-	26,461	26,461
Federal Rev Distributed by TEA	-	1,437,680	1,437,680
Total Federal Program Revenues	<u>-</u>	<u>1,532,538</u>	<u>1,532,538</u>
Net Assets Released from Restrictions			
Restrictions Satisfied by Payments	8,107,796	(8,107,796)	-
Total Property and Equipment	<u>8,107,796</u>	<u>(8,107,796)</u>	<u>-</u>
Total Revenues	<u>\$ 8,218,605</u>	<u>\$ (479,565)</u>	<u>\$ 7,739,040</u>
EXPENSES			
Program Services:			
Instruction & Instructional-Related Services	\$ 3,740,519	\$ -	\$ 3,740,519
Instruction & School Leadership	849,157	-	849,157
Support Services:			
Student Support Services	652,690	-	652,690
Administrative Support Services	464,445	-	464,445
Support Services - Non-Student Based	1,660,778	-	1,660,778
Ancillary Services	3,952	-	3,952
Debt Service	662,664	-	662,664
Fundraising	73,591	-	73,591
Total Expenses	<u>8,107,796</u>	<u>-</u>	<u>8,107,796</u>
Change in Net Assets	110,809	(479,565)	(368,756)
Net Assets, Beginning of the Year	<u>392,381</u>	<u>1,816,313</u>	<u>2,208,694</u>
Net Assets, End of the Year	<u>\$ 503,190</u>	<u>\$ 1,336,748</u>	<u>\$ 1,839,938</u>

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

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

STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

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

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

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

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

	Program	Supporting Activities		2023 Totals
	Activities			
	Program Services	Management and General	Fundraising	
EXPENSES				
Salaries and Wages	\$ 2,701,466	\$ 959,239	\$ -	\$ 3,660,705
Benefits	372,384	128,542	-	500,926
Payroll Taxes	43,329	14,144	-	57,473
Total Payroll Expenses	<u>3,117,179</u>	<u>1,101,925</u>	<u>-</u>	<u>4,219,104</u>
Professional Services	532,345	294,570	-	826,915
Repairs and Maintenance	-	530,997	-	530,997
Utilities	-	260,999	-	260,999
Rentals	157,500	36,459	-	193,959
Contracted Services	75,028	49,144	15,000	139,172
Instructional Materials	74,502	-	-	74,502
General Supplies	256,992	26,485	-	283,477
Food Service	-	68,997	-	68,997
Travel	100,400	54,809	-	155,209
Insurance	126,487	-	-	126,487
Miscellaneous	149,243	43,310	58,591	251,144
Total Non-Payroll Expenses	<u>1,472,497</u>	<u>1,365,770</u>	<u>73,591</u>	<u>2,911,858</u>
Bond Related Expenses	-	25,581	-	25,581
Interest	-	637,083	-	637,083
Total Debt Expenses	<u>-</u>	<u>662,664</u>	<u>-</u>	<u>662,664</u>
Total Before Depreciation	4,589,676	3,130,359	73,591	7,793,626
Depreciation Expense	<u>-</u>	<u>314,170</u>	<u>-</u>	<u>314,170</u>
Total Expenses	<u>\$ 4,589,676</u>	<u>\$ 3,444,529</u>	<u>\$ 73,591</u>	<u>\$ 8,107,796</u>

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

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

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

	Program Activities	Supporting Activities		2022 Totals
	Program Services	Management and General	Fundraising	
EXPENSES				
Salaries and Wages	\$ 2,440,740	\$ 875,454	\$ -	\$ 3,316,194
Benefits	327,879	109,221	-	437,100
Payroll Taxes	35,629	13,028	-	48,657
Total Payroll Expenses	<u>2,804,248</u>	<u>997,703</u>	<u>-</u>	<u>3,801,951</u>
Professional Services	609,802	88,955	312	699,069
Repairs and Maintenance	-	418,055	-	418,055
Utilities	-	178,467	-	178,467
Rentals	130,587	43,011	-	173,598
Contracted Services	81,643	35,338	5,356	122,337
Instructional Materials	3,071	-	-	3,071
General Supplies	225,395	17,354	-	242,749
Food Service	-	49,792	-	49,792
Travel	95,133	42,270	-	137,403
Insurance	107,655	-	-	107,655
Miscellaneous	130,674	43,579	73,185	247,438
Total Non-Payroll Expenses	<u>1,383,960</u>	<u>916,821</u>	<u>78,853</u>	<u>2,379,634</u>
Bond Related Expenses	-	25,581	-	25,581
Interest	-	672,029	-	672,029
Total Debt Expenses	<u>-</u>	<u>697,610</u>	<u>-</u>	<u>697,610</u>
Total Before Depreciation	4,188,208	2,612,134	78,853	6,879,195
Depreciation Expense	<u>-</u>	<u>315,597</u>	<u>-</u>	<u>315,597</u>
Total Expenses	<u>\$ 4,188,208</u>	<u>\$ 2,927,731</u>	<u>\$ 78,853</u>	<u>\$ 7,194,792</u>

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

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

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (368,756)	\$ (265,966)
Adjustments to reconcile the change in net assets to cash provided by operating activities:		
Depreciation	314,170	315,597
Amortization of bond costs	17,080	17,080
(Increase) Decrease in Accounts Receivable	-	29,991
(Increase) Decrease in Due from State	(188,639)	(28,653)
(Increase) Decrease in Due from Federal Agencies	341,733	(452,413)
(Increase) Decrease in Prepaid Expenses	11,667	(34,632)
Increase (Decrease) in Accounts Payable	(127,336)	(255,070)
Increase (Decrease) in Accrued payroll and related liabilities	(2,790)	20,812
Increase (Decrease) in Accrued Interest	<u>(30,425)</u>	<u>9,569</u>
Net cash provided (used) by operating activities	<u>(33,296)</u>	<u>(643,685)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment on bond	(100,000)	(60,000)
Capital Lease Principal Payments	(89,473)	(85,124)
Loan payable payments	<u>(15,389)</u>	<u>(14,888)</u>
Net cash provided (used) by financing activities	<u>(204,862)</u>	<u>(160,012)</u>
Net increase (decrease) in cash and cash equivalents	(238,158)	(803,697)
Cash and cash equivalents, Beginning of Year	<u>2,643,632</u>	<u>3,447,329</u>
Cash and cash equivalents, End of Year	<u>\$ 2,405,474</u>	<u>\$ 2,643,632</u>
Interest paid during the year	\$ 637,083	\$ 672,029
Income taxes paid during the year	\$ -	\$ -

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

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

NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 1: Summary of Significant Accounting Policies

The general-purpose financial statements of EVOLUTION ACADEMY CHARTER SCHOOL, LLC (the corporation) were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

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

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

Corporate Operations

Evolution Academy was solely organized to provide educational services to "at-risk" students. In 2002, the State Board of Education of the State of Texas granted the corporation an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Evolution Academy was opened January 7, 2002. The charter was renewed for a period of ten years (through July 31, 2029). As of April 29, 2013, the commissioner approved the amendment request to add campuses to be known as Evolution Academy Spring and Evolution Academy Beaumont. The School programs, services, activities, and functions are governed by the corporation's board of directors. The charter school program is the only financial activity of the corporation.

Basis of Accounting and Presentation

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

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

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

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restriction are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

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

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

NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Contributions

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

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

Cash and Cash Equivalents

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

Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific purpose financial statements. Capital assets are defined by the corporation as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Personal Leave

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

Functional Allocation of Expenses

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

Note 2: Accumulated Unpaid Vacation and Sick Leave Benefits

August 31, 2023 and 2022, the charter holder had no material liability for accrued sick leave or vacation leave.

Note 3: Cash Deposits

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

At August 31, 2023, the carrying amount of the charter holder's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$2,405,474 and the bank balance was \$2,434,553. The charter holder's cash deposits at August 31, 2023, and during the year ended August 31, 2023, were adequately covered by FDIC insurance and by pledged collateral held by the charter holder's agent bank in the charter holder's name.

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

NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 3: Cash Deposits, Continued

At August 31, 2022, the carrying amount of the charter holder's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$2,644,107, and the bank balance was \$1,307,287 The charter holder's cash deposits at August 31, 2022, and during the year ended August 31, 2022, were adequately covered by FDIC insurance and by pledged collateral held by the charter holder's agent bank in the charter holder's name.

Note 4: Due from State

At August 31, 2023 and 2022, the charter holder had earned the following revenues which were not received until after year end:

	<u>2023</u>	<u>2022</u>
Due from TEA	\$ 483,848	\$ 295,209
Due from other	344,568	686,301
Total Due from Governments	<u>\$ 828,416</u>	<u>\$ 981,510</u>

Note 5: Capital Assets

Capital assets at August 31, 2023 were as follows:

	<u>Balance 09/01/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 08/31/2023</u>
Buildings & Improvements	\$ 14,675,984	\$ -	\$ -	\$ 14,675,984
Equipment	829,711	-	-	829,711
Vehicles	197,507	-	-	197,507
Software	149,685	-	-	149,685
Accumulated Depreciation	(4,302,524)	(314,170)	-	(4,616,694)
Property and Equipment, Net	<u>\$ 11,550,363</u>	<u>\$ (314,170)</u>	<u>\$ -</u>	<u>\$ 11,236,193</u>

Capital assets at August 31, 2022 were as follows:

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

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

Note 6: Net Assets with Donor Restrictions

The School has \$1,336,748 in net assets with donor restrictions at August 31, 2023. These amounts are subject to restrictions put in place by the Texas Education Agency.

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

NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 7: Long-Term Debt

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

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

The capitalized bond issuance costs and the discount on the bonds as displayed as "Other Assets" on the statement of financial position are being amortized over the life of the bonds at a total of \$1,423 per month. For the year ending August 31, 2023, a total of \$17,081 was amortized with a charge to bond issuance expense.

Long-term debt at August 31, 2023 and 2022, consisted of the following:

	<u>2023</u>	<u>2022</u>
Note payable to a bank, 9% interest, principal and interest due in monthly installments of \$44,643 commencing August 25, 2020. Final payment is due August 31, 2040. The note is secured by a pledge of all revenues and by mortgage on the property financed or refinanced from proceeds of the bonds of the charter school.	\$ 5,495,000	\$ 5,595,000
Less: Current Portion of Long-Term Debt	(100,000)	(100,000)
Total Long-Term Debt	<u>\$ 5,395,000</u>	<u>\$ 5,495,000</u>

Future maturities of long-term, debt at August 31, 2023 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	100,000	387,800	487,800
2025-2029	640,000	1,624,575	2,264,575
2030	230,000	229,450	459,450
2031	245,000	214,500	459,500
2032	260,000	198,575	458,575
Thereafter	4,020,000	876,525	4,896,525
	<u>\$ 5,495,000</u>	<u>\$ 3,531,425</u>	<u>\$ 9,026,425</u>

**EVOLUTION ACADEMY CHARTER SCHOOL, LLC
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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 8: Operating Lease Agreements

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

Current Capital Lease Payable Houston Facility Lease			
Year Ended	Principal	Interest	Total
August 31, 2024	92,854	267,146	360,000
Capital Lease Payable Houston Facility Lease			
Year Ended	Principal	Interest	Total
August 31,			
2025	96,362	263,638	360,000
2026	100,002	259,998	360,000
2027	103,780	256,220	360,000
2028	107,701	252,299	360,000
2029-2060	6,734,150	4,785,873	11,520,023
	<u>\$ 7,141,995</u>	<u>\$ 5,818,028</u>	<u>\$ 12,960,023</u>

Note 9: Defined Benefit Pension Plan

Summary of Significant Accounting Policies. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description. EVOLUTION ACADEMY CHARTER SCHOOL, LLC participates in a cost-sharing multiple-employer defined benefit pension plan 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 work load 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 Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.texas.gov/pages/about_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.T

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefit to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's

**EVOLUTION ACADEMY CHARTER SCHOOL, LLC
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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 9: Defined Benefit Pension Plan Continued

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 provision 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 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, Title 8, 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.

Contributions. Contribution requirements are established or amended pursuant to 16, Section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent 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 Reform Bill (Senate Bill 12) of the 86th 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 2022 ACFR, Note 11, on page 85.

The following table shows contribution rates by type of contributor for the fiscal years 2022 and 2023 and the contributions by type of contributions reported by TRS which were received by TRS during the measurement year (TRS FY 2022). These are included in the calculation of the district's proportionate share of the net pension liability.

	Contribution Rates	
	2022	2023
Member	8.00%	8.00%
Non-Employer Contributing Entity (State)	7.75%	8.00%
Employers	7.75%	8.00%
Charter Holder's Employer Contributions		\$194,739
Charter Holder's Member Contributions		\$175,847
Charter Holder's NECE On-Behalf		\$109,628

The actual contributions made by the district during the reporting period (the district's FY 2023) were \$194,739 for the district and \$175,847 made by the plan members employed by the district.

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. 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 (public school, junior college, other entities, or the State of Texas as the employer for senior universities and medical 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.

**EVOLUTION ACADEMY CHARTER SCHOOL, LLC
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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 9: Defined Benefit Pension Plan Continued

- When any or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

In addition to the employer contributions listed above, there is a surcharge and employer is subject to:

- All public schools, charter schools, and regional educational service centers must contribute 1.7 percent of the member's salary beginning in fiscal year 2022, gradually increasing to 2 percent in fiscal year 2025. This surcharge amount is 1.80% for fiscal year 2023.
- 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.

Net Pension Liability

Components of the net pension liability of the plan as of August 31, 2022 are disclosed below: (From TRS Annual Comprehensive Financial Report 2022, p. 86.)

<u>Components of Net Pension Liability</u>	<u>Amount</u>
Total Pension Liability	\$ 243,553,045,455
Less: Plan Fiduciary Net Position	(184,185,617,196)
Net Pension Liability	<u>\$ 59,367,428,259</u>
Net Position as Percentage of Total Pension Liability	75.62%

Actuarial Assumptions.

Roll Forward - The total pension liability in the August 31, 2021 actuarial valuation was determined using the following actuarial assumptions: *Actuarial Assumptions can be found in the 2022 TRS ACFR, Note 11, page 87.*

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate	7.00%
Municipal Bond Rate as of August 2020	3.91% - The source for this rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity's Index's "20-Year Municipal Go AA Index"
Last year ending August 31 in Projection Period (100 years)	2121
Inflation	2.30%
Salary Increases	2.95% to 8.95% 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, 2021. For a full description of these assumptions please see the TRS actuarial valuation report dated November 12, 2021.

Discount Rate. A single discount rate of 7.00 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.00 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session.

**EVOLUTION ACADEMY CHARTER SCHOOL, LLC
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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 9: Defined Benefit Pension Plan Continued

It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.00 percent. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2022 (see page 54 of the TRS ACFR) are summarized below:

Asset Class*	Target Allocation %**	Long-Term Expected Geometric Real Rate of Return***	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.00%	4.60%	1.12%
Non-U.S. Developed	13.00%	4.90%	0.90%
Emerging Markets	9.00%	5.40%	0.75%
Private Equity	14.00%	7.70%	1.55%
Stable Value			
Government Bonds	16.00%	1.00%	0.22%
Absolute Return	0.00%	3.70%	0.00%
Stable Value Hedge	5.00%	3.40%	0.18%
Real Return			
Real Estate	15.00%	4.10%	0.94%
Energy, Natural Resources	6.00%	5.10%	0.37%
Commodities	0.00%	3.60%	0.00%
Risk Parity	8.00%	4.60%	0.43%
Asset Allocation Leverage			
Cash	2.00%	3.00%	0.01%
Asset Allocation Leverage	-6.00%	3.60%	-0.05%
Inflation Expectation			2.70%
Volatility Drag****			-0.91%
Total	100.00%		8.19%

* Absolute Return Includes Credit Sensitive Investments.

** Target allocations are based on the FY2022 policy model.

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

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

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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 9: Defined Benefit Pension Plan Continued

Discount Rate Sensitivity Analysis. The following table presents the District's net pension liability of the plan using the discount rate of 7.00 percent, and what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

	1% Decrease in Discount Rate 6.00%	Discount Rate 7.00%	1% Increase in Discount Rate 8.00%
School's proportionate share of the net pension liability	\$ 3,854,182	\$ 2,477,585	\$ 1,361,788

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2023, EVOLUTION ACADEMY CHARTER SCHOOL, LLC reported a liability of \$2,477,585 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, LLC. The amount recognized by EVOLUTION ACADEMY CHARTER SCHOOL, LLC 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 CHARTER SCHOOL, LLC were as follows:

School's proportionate share of the collective net pension liability	\$ 2,477,585
State's proportionate share that is associated with the District	<u>1,394,755</u>
Total	<u>\$ 3,872,340</u>

The net pension liability was measured as of August 31, 2021 and rolled forward to August 31, 2022 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 plan relative to the contributions of all employers to the plan for the period September 1, 2021 through August 31, 2022.

At August 31, 2022, the employer's proportion of the collective net pension liability was 0.004173306% which was an increase of 0.000209573% from its proportion measured as of August 31, 2021.

Changes In Actuarial Assumptions Since the Prior Actuarial Valuation – The actuarial assumptions and methods have been modified since the determination of the prior year's Net Pension Liability. These new assumptions were adopted in conjunction with an actuarial experience study. The primary assumption change was the lowering of the single discount rate from 7.25 percent to 7.00 percent.

Changes in Benefits - There were no changes in benefits.

Note 10: Defined Other Post-Employment Benefit Plans

Summary of Significant Accounting Policies. The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the Net OPEB Liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-go plan and all cash is held in a cast account.

Plan Description. The West Orange-Cove Consolidated ISD 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.

**EVOLUTION ACADEMY CHARTER SCHOOL, LLC
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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 10: Defined Other Post-Employment Benefit Plans Continued

The TRS Board of Trustees administers the TRS-Care program and the related fund in accordance with Texas Insurance Code Chapter 1575. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. 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 Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at http://www.trs.texas.gov/Pages/about_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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 plan. Optional dependent coverage is available for an additional fee.

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	
	Medicare	Non-Medicare
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 school districts based upon public school district payroll. The TRS Board of Trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public or charter school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor which were reported for the district by TRS for the measurement year. These were included in the calculation of the district's proportionate share of the net TRS-Care liability.

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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 10: Defined Other Post-Employment Benefit Plans Continued

	Contribution Rates	
	2022	2023
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Charter Holder's Measurement Year Employer Contributions		\$34,762
Charter Holder's Measurement Year Member Contributions		\$11,145
Charter Holder's Measurement Year NECE On-Behalf Contributions		\$42,404

The actual contributions made by the district during the reporting period (the district's FY 2023) were \$34,762 for the district and \$11,145 made by the plan members employed by the district.

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 hiring a TRS retiree, employers are required to pay to TRS-Care, a monthly surcharge of \$535 per retiree.

TRS-Care received a supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$83 million in fiscal year 2022 from the Federal Rescue Plan Act (ARPA) to help defray COVID-19-related health care costs during fiscal year 2022.

Actuarial Assumptions. The actuarial valuation was performed as of August 31, 2021. Update procedures were used to roll forward the total OPEB liability to August 31, 2022. The actuarial valuation was determined using the following actuarial assumptions;

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. The demographics 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 based on an established pattern of practice and are identical to the assumptions used in the August 31, 2021 TRS pension actuarial valuation that was rolled forward to August 31, 2022.

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

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. 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 mortality projection scale MP-2018.

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry-Age Normal
Inflation	2.30%
Single Discount Rate	3.91% as of August 31, 2022
Ageing Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Salary Increases	3.05% to 9.05%, including inflation
Ad Hoc Post-Employment Benefits Changes	None.

**EVOLUTION ACADEMY CHARTER SCHOOL, LLC
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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 10: Defined Other Post-Employment Benefit Plans Continued

The initial medical trend rates were 8.50 percent for Medicare retirees and 7.25 percent for non-Medicare retirees. There was an initial prescription drug trend rate of 8.25 percent for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25 percent over a period of 13 years.

Discount Rate. A single discount rate of 3.91 percent was used to measure the total OPEB liability. This was an increase of 1.96 percent in the discount rate since the previous year. The Discount Rate can be found in the 2023 TRS ACFR on page 77. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on these 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 used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

The source of the municipal bond rate is the Fidelity "20-year Municipal GO AA Index" as of August 31, 2021 using the Fixed Income Market Data/Yield Curve/Data 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 (3.91%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate 2.91%	Discount Rate 3.91%	1% Increase in Discount Rate 4.91%
School's proportionate share of the net OPEB liability	\$ 1,194,871	\$ 1,013,394	\$ 866,373

Healthcare Cost Trend Rates Sensitivity Analysis - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease in Healthcare Trend	Current Single Healthcare Trend	1% Increase in Healthcare Trend
School's proportionate share of the net OPEB liability	\$ 835,041	\$ 1,013,394	\$ 1,244,605

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2023, EVOLUTION ACADEMY CHARTER SCHOOL, LLC reported a liability of \$1,013,394 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 CHARTER SCHOOL, LLC were as follows:

School's proportionate share of the collective net OPEB liability	\$ 1,013,394
State's proportionate share that is associated with the School	1,236,181
Total	<u>\$ 2,249,575</u>

The net OPEB liability was measured as of August 31, 2022 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, 2021 thru August 31, 2022.

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

NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 10: Defined Other Post-Employment Benefit Plans Continued

At August 31, 2023 the employer's proportion of the collective net OPEB liability was 0.004232348% compared to the 0.003741806% as of August 31, 2022. This is an increase of 0.000490542%.

Changes in Actuarial Assumptions Since the Prior Actuarial Valuation – The discount rate changed from 1.95 percent as of August 31, 2021 to 3.91 percent as of August 31, 2022. This change decreased the total OPEB liability.

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

Note 11: Health Care Coverage

During the year ended August 31, 2023 and 2022, employees of the charter school were covered by a Health Insurance Plan (the Plan). The charter school contributed \$430 per month per employee to the Plan. Employees, at their option, authorized payroll withholding to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 12: Commitments and Contingencies

The charter school receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency. In the opinion of the charter school, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note 13: Economic Dependency

During the year ended August 31, 2022, the charter school earned revenue of \$6,095,693 from the Texas Education Agency (TEA) and \$1,532,538 from federal grants. This constitutes approximately 99.8% of total revenue earned. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the charter school to continue to provide the current level of services to its students.

Note 14: Income Tax

On December 30, 2008, the FASB issued FASB Staff Position (FSP) FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. There was no unrelated business income for the year ended August 31, 2023, and as a result, there was no income tax liability.

Note 15: Subsequent Events

Management has evaluated the impact of all subsequent events on the Company through January 28, 2024, the date the financial statements were available for issuance, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements other than the uncertainty of the coronavirus discussed below.

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

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

NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

Note 16: Related Party Transactions

The corporation paid Cynergy Collaboration Consultants, Inc., a company owned by the spouse of the charter school's CEO, \$865,284 for the year ended August 31, 2023. Cynergy Collaboration provides janitorial and technology support services to the charter school and owns the facility of the Spring location. The building is a commercial property used as an administrative office and classroom campus in Spring, TX. The corporation pays \$30,000 per month on a forty-seven year lease which began in August 2013.

Note 17: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of cash and cash equivalents of \$503,190. Except for these financial assets, EVOLUTION ACADEMY CHARTER SCHOOL, LLC's cash, due from TEA, and fixed assets' use are restricted by the Texas Education Agency, federal agencies, and donors for charter school operations.

Note 18: Budgetary Variances

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

- **Function 23** – The variance greater than 10% is due to an underestimation of payroll benefits costs. Initial budgeted amounts were not adequately adjusted.
- **Function 41** - The variance greater than 10% is due to increased costs for support personnel/staff. Budgeted amounts were not adequately adjusted.
- **Function 53** – The variance greater than 10% is due to an underestimation of payroll benefits and professional services costs. The initial budgeted amounts were not adequately adjusted.
- **Function 61** – The variance greater than 10% is due to certain marketing costs not originally included in the budget. The initial budget was not amended to reflect changes.
- **Function 81** – The variance greater than 10% due to increased fundraising costs not originally included in the budget. The initial budget was not amended to reflect changes.

The Budgetary Comparison Schedule (page 33) revealed that the original and final budgeted amounts vary by more than 10 percent of the original budgeted amount for multiple expense function codes. Management's explanation:

The variance in budgeted amounts exceeds 10% on all functions listed on the Budgetary Comparison Schedule for the same reason. The original budget only included budgeted amounts of state program revenue received from the TEA. The final budget reflects both federal and state funding amounts and the budgeted expenses for both. This occurs because our annual budgets are usually presented and approved in late July and early August of each year. At that time, we do not typically know which federal grants have been awarded or renewed. Once federal NOGAs are received, the federal grant awards and associated expenses are added to the budget accordingly.

Going forward, the budget process will be modified to ensure that all costs are estimated as accurately and timely as possible. Management will ensure that the original budget presented to the auditors includes budgeted amounts for both federal and state funds received. Variances will continue to be monitored quarterly, at a minimum, to ensure that significant overages do not occur and any issues are addressed

SPECIFIC-PURPOSE FINANCIAL STATEMENT

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

STATEMENT OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2023 Totals</u>
REVENUE			
Local Support			
5740 Other Revenues from Local Sources	\$ 98,940	\$ -	\$ 98,940
5750 Revenue from Cocurricular Enterprising	11,869	-	11,869
Total Local Support	<u>110,809</u>	<u>-</u>	<u>110,809</u>
State Program Revenue			
5810 Foundation School Program Act Revenues	-	5,578,096	5,578,096
5820 State Program - TEA	-	517,597	517,597
Total State Program Revenues	<u>-</u>	<u>6,095,693</u>	<u>6,095,693</u>
Federal Program Revenues			
5920 Federal Revenues Distributed by TEA	-	1,521,794	1,521,794
5930 Federal Revenues - Other than TEA	-	10,744	10,744
Total Federal Program Revenues	<u>-</u>	<u>1,532,538</u>	<u>1,532,538</u>
Net Assets Released from Restrictions			
Restrictions Satisfied by Payments	<u>8,107,796</u>	<u>(8,107,796)</u>	<u>-</u>
Total Property and Equipment	<u>8,107,796</u>	<u>(8,107,796)</u>	<u>-</u>
Total Revenues	<u>\$ 8,218,605</u>	<u>\$ (479,565)</u>	<u>\$ 7,739,040</u>
EXPENSES			
11 Instruction	\$ 3,528,121	\$ -	\$ 3,528,121
13 Curriculum & Instructional Staff Development	212,398	-	212,398
23 School Leadership	849,157	-	849,157
31 Guidance, Counseling, and Evaluation Services	437,729	-	437,729
34 Student (Pupil) Transportation	79,789	-	79,789
35 Food Service	135,172	-	135,172
41 General Administration	464,445	-	464,445
51 Plant Maintenance and Operations	1,347,820	-	1,347,820
52 Security and Monitoring Services	148,131	-	148,131
53 Data Processing Services	164,827	-	164,827
61 Community Service	3,952	-	3,952
71 Debt Services	662,664	-	662,664
81 Fundraising	73,591	-	73,591
Total Expenses	<u>8,107,796</u>	<u>-</u>	<u>8,107,796</u>
Change in Net Assets	110,809	(479,565)	(368,756)
Net Assets, Beginning of the Year	<u>392,381</u>	<u>1,816,313</u>	<u>2,208,694</u>
Net Assets, End of the Year	<u>\$ 503,190</u>	<u>\$ 1,336,748</u>	<u>\$ 1,839,938</u>

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

STATEMENT OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Totals</u>
REVENUE			
Local Support			
5740 Other Revenues from Local Sources	\$ 14,655	\$ -	\$ 14,655
5750 Revenue from Cocurricular Enterprising	614	-	614
Total Local Support	<u>15,269</u>	<u>-</u>	<u>15,269</u>
State Program Revenue			
5810 Foundation School Program Act Revenues	-	4,757,721	4,757,721
5820 State Program - TEA	-	257,310	257,310
5830 State Program Revenues - Non TEA	-	4,857	4,857
Total State Program Revenues	<u>-</u>	<u>5,019,887</u>	<u>5,019,887</u>
Federal Program Revenues			
5920 Federal Revenues Distributed by TEA	-	1,856,198	1,856,198
5930 Federal Revenues - Other than TEA	-	37,026	37,026
5940 Fed Rev Distributed Directly from Fed Gov	-	446	446
Total Federal Program Revenues	<u>-</u>	<u>1,893,670</u>	<u>1,893,670</u>
Net Assets Released from Restrictions			
Restrictions Satisfied by Payments	7,194,792	(7,194,792)	-
Total Property and Equipment	<u>7,194,792</u>	<u>(7,194,792)</u>	<u>-</u>
Total Revenues	<u>\$ 7,210,061</u>	<u>\$ (281,235)</u>	<u>\$ 6,928,826</u>
EXPENSES			
11 Instruction	\$ 3,129,270	\$ -	\$ 3,129,270
13 Curriculum & Instructional Staff Development	242,482	-	242,482
23 School Leadership	816,456	-	816,456
31 Guidance, Counseling, and Evaluation Services	419,144	-	419,144
34 Student (Pupil) Transportation	106,052	-	106,052
35 Food Service	109,863	-	109,863
41 General Administration	426,371	-	426,371
51 Plant Maintenance and Operations	948,568	-	948,568
52 Security and Monitoring Services	63,410	-	63,410
53 Data Processing Services	155,675	-	155,675
61 Community Service	1,038	-	1,038
71 Debt Services	697,610	-	697,610
81 Fundraising	78,853	-	78,853
Total Expenses	<u>7,194,792</u>	<u>-</u>	<u>7,194,792</u>
Change in Net Assets	15,269	(281,235)	(265,966)
Net Assets, Beginning of the Year	<u>377,112</u>	<u>2,097,548</u>	<u>2,474,660</u>
Net Assets, End of the Year	<u>\$ 392,381</u>	<u>\$ 1,816,313</u>	<u>\$ 2,208,694</u>

REQUIRED SUPPLEMENTARY INFORMATION

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

SCHEDULE OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

Expenses	2023	2022
6100 Payroll Costs	\$ 4,219,104	\$ 3,801,951
6200 Professional and Contracted Services	1,952,041	1,591,527
6300 Supplies and Materials	436,901	304,791
6400 Other Operating Costs	837,086	798,913
6500 Debt	662,664	697,610
Total Expenses	<u>\$ 8,107,796</u>	<u>\$ 7,194,792</u>

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2023

	Ownership Interest			Total
	Local	State	Federal	
1110 Cash and Cash Equivalents	\$ 2,792,078	\$ (73,014)	\$ (313,590)	\$ 2,405,474
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 Library Books and Media	-	149,685	-	149,685
Total Property and Equipment	<u>\$ 2,792,078</u>	<u>\$ 15,726,075</u>	<u>\$ (259,792)</u>	<u>\$ 18,258,361</u>

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

SCHEDULE OF RELATED PARTY TRANSACTIONS

AUGUST 31, 2023

<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	\$ 865,284	\$0

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

SCHEDULE OF RELATED PARTY COMPENSATION

AUGUST 31, 2023

None.

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

SCHEDULE OF REAL PROPERTY OWNERSHIP

AUGUST 31, 2023

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

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

REQUIRED SCHEDULE J-4

FOR THE YEAR ENDED AUGUST 31, 2023

Section A: Compensatory Education Programs

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs	\$741,416
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)	\$1,203,103

Section B: Bilingual Education Programs

AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
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.	\$39,620
AP8	List the actual direct program expenditure for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	\$6,995

EVOLUTION ACADEMY CHARTER SCHOOL, LLC**BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2023**

	Budgeted Amounts		Actual Amounts	Variance From Final Budget
	Original	Final		
REVENUE				
Local Support				
5700 Local Revenue	\$ -	\$ 12,000	\$ 110,809	\$ 98,809
Total Local Support	-	12,000	110,809	98,809
State Program Revenue				
5800 State Revenue	4,685,679	6,364,324	6,095,693	(268,631)
Total State Program Revenues	4,685,679	6,364,324	6,095,693	(268,631)
Federal Program Revenues				
5900 Federal Revenue	-	2,209,731	1,532,538	(677,193)
Total Federal Program Revenues	-	2,209,731	1,532,538	(677,193)
Total Revenues	\$ 4,685,679	\$ 8,586,055	\$ 7,739,040	\$ (847,015)
EXPENSES				
11 Instruction	\$ 2,189,855	\$ 4,367,297	\$ 3,528,121	\$ 839,176
13 Curriculum & Instructional Staff Development	17,500	199,559	212,398	(12,839)
23 School Leadership	17,100	718,979	849,157	(130,178)
31 Guidance, Counseling, and Evaluation Services	271,319	406,091	437,729	(31,638)
34 Student (Pupil) Transportation	96,750	98,109	79,789	18,320
35 Food Service	20,344	133,521	135,172	(1,651)
41 General Administration	417,803	417,803	464,445	(46,642)
51 Plant Maintenance and Operations	656,150	1,233,055	1,347,820	(114,765)
52 Security and Monitoring Services	74,500	139,889	148,131	(8,242)
53 Data Processing Services	59,137	140,208	164,827	(24,619)
61 Community Service	-	1,024	3,952	(2,928)
71 Debt Services	545,500	645,500	662,664	(17,164)
81 Fundraising	6,000	59,083	73,591	(14,508)
Total Expenses	4,371,958	8,560,118	8,107,796	452,322
Change in Net Assets	313,721	25,937	(368,756)	(394,693)
Net Assets, Beginning of the Year	2,208,694	2,208,694	2,208,694	2,208,694
Net Assets, End of the Year	\$ 2,522,415	\$ 2,234,631	\$ 1,839,938	\$ (394,693)

COMPLIANCE AND INTERNAL CONTROL

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* OR IN A SINGLE AUDIT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Evolution Academy Charter School, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2023 and 2022, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Mitchell T. Fontenote CPA, Inc.

Port Neches, Texas
January 15, 2024



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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Evolution Academy Charter School, Inc. compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Evolution Academy Charter School, Inc.'s major federal programs for the year ended August 31, 2023 and 2022. Evolution Academy Charter School, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Evolution Academy Charter School, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2023 and 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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

Mitchell T. Fontenote CPA, Inc.

Port Neches, Texas
January 15, 2024

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2023**

Summary of Auditor's Results

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

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

Findings and Questioned Costs for federal and state awards None

EVOLUTION ACADEMY CHARTER SCHOOL, LLC**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2023**

Data Control Codes	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through Texas Education Agency:				
211	Title I, Part A - Improving Basic Programs	84.010A	23610101057834	182,226
211	Title I, Part A - Improving Basic Programs	84.010A	24610101057834	2,600
211	TTL I 1003 School Improvement	84.010A	22610141057834	86,000
	<i>Total CFDA 84.010A</i>			<u>\$ 270,826</u>
224	*IDEA B Formula	84.027A	236600010578346000	113,496
284	*IDEA B Formula ARP	84.027X	225350010578345000	731
	<i>Total CFDA 84.027A</i>			<u>\$ 114,227</u>
	Total Special Education Cluster			\$ 114,227
255	Title II, Part A - Supporting Effective Instruction	84.367A	23694501057834	23,765
244	2021-2023 PTEch and ICIA Plan	84.048A	213922027110017	14,000
289	Lone Star STEM Cycle 3 Year 2	84.411B	203929077110003	3,571
289	Lone Star STEM Cycle 3 Year 2	84.411B	203929087110002	3,571
	<i>Total CFDA 84.411B</i>			<u>\$ 7,142</u>
289	Title IV, Part A, Subpart I	84.424A	22680101057834	12,552
279	COVID-19 TCLAS-ESSER III	84.425U	21528042057834	50,673
280	COVID 19 - ARP HOMELESS II	84.425W	21533002057834	2,112
281	COVID-19 CRRSA ESSER II	84.425D	21521001057834	244,484
282	COVID-19 ARP ESSER III	84.425U	21528001057834	546,414
282	COVID-19 TCLAS High-Quality After-School	84.425U	215280587110053	69,334
	<i>Total CFDA 84.425</i>			<u>\$ 913,017</u>
	Total Passed Through Texas Education Agency			\$ 1,355,529
U.S. DEPARTMENT OF LABOR				
Passed Through Texas Education Agency:				
289	*2021-2023 P-TECH Planning	17.258	213933017110017	82,151
	Total WIOA Cluster			<u>\$ 82,151</u>
	Total Passed Through Texas Education Agency			<u>\$ 82,151</u>
	Total U.S. Department OF Labor			<u>\$ 82,151</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Texas Health and Human Services Commission				
420	Medicaid Administrative Claiming Program - MAC	93.778	22-057834	10,744
	Total Passed Through Texas Health and Human Services Commission			<u>\$ 10,744</u>

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2023**

U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Texas Education Agency:				
240	*School Breakfast Program	10.553	71401201	57,653
240	*National School Lunch Program	10.555	71302001	26,461
Total Passed Through Texas Education Agency				84,114
Total Child Nutrition Cluster				84,114
Total U.S. Department of Agriculture				\$ 84,114
TOTAL EXPENDITURES OF FEDERAL EXPENDITURES				\$ 1,532,538

EVOLUTION ACADEMY CHARTER SCHOOL, LLC

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2023

Basis of Presentation

Summary of Significant Accounting Policies

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

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