

GENESIS SCHOOLS

DBA Pegasus School of
Liberal Arts and Sciences

For the Years Ended
August 31, 2020 and 2019

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GENESIS SCHOOLS (Charter Holder)
(Federal Employer Identification Number 75-2640636)
CDN 057-802

CERTIFICATE OF BOARD

We, the undersigned, certify that the attached annual Financial and Compliance Report of the above Genesis Schools (Charter Holder) was reviewed and () approved () disapproved for the year ended August 31, 2020, at a meeting of the governing body of the charter holder on the _____ day of _____, 2021.

Signature of Board Secretary

Signature of Board President

NOTE: If the governing body of the Charter Holder does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Genesis Schools
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Genesis Schools (Charter Holder) DBA Pegasus School of Liberal Arts and Sciences (a nonprofit organization), which comprise the statement of financial position as of August 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Genesis Schools (Charter Holder) DBA Pegasus School of Liberal Arts and Sciences as of August 31, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

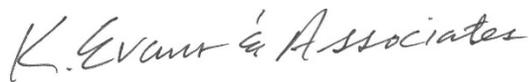
Other Matters

Other Information

Our audits were 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and required Texas Education Agency Supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2021 on our consideration of Genesis Schools (Charter Holder) DBA Pegasus School of Liberal Arts and Sciences' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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* and should be considered in assessing the result of our audit.



K. Evans & Associates, CPA's
Frisco, TX
January 19, 2021

FINANCIAL STATEMENTS

GENESIS SCHOOLS
Statement of Financial Position
August 31, 2020 and 2019

	2020	2019
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 1,535,687	\$ 1,308,128
Investments	64,677	64,677
Due from State	574,665	728,378
Receivables	46,584	49,823
Total Current Assets	2,221,613	2,151,006
Property & Equipment, Net	18,271	47,779
Total Assets	\$ 2,239,884	\$ 2,198,785
 LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 111,089	\$ 122,523
Accrued Wages	19,244	19,244
Unearned Revenue	13,536	-
Total Current Liabilities	143,869	141,767
Total Liabilities	143,869	141,767
Net Assets:		
Without Donors Restrictions	1,099,130	944,367
With Donors Restrictions	996,885	1,112,651
Total Net Assets	2,096,015	2,057,018
Total Liabilities & Net Assets	\$ 2,239,884	\$ 2,198,785

The notes to the financial Statements are an integral part of this statement.

GENESIS SCHOOLS
Statement of Financial Activities
For the Years Ended August 31, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 154,763	\$ -	\$ 154,763	\$ 37,307
Total Local Support	<u>154,763</u>	<u>-</u>	<u>154,763</u>	<u>37,307</u>
State Program Revenues:				
5810 Foundation School Program Revenues	-	6,183,637	6,183,637	6,441,711
5820 State Program Revenues Distributed by Texas Education Agency	-	123,425	123,425	93,835
5830 Other State Program Revenues	-	25,500	25,500	-
Total State Program Revenues	<u>-</u>	<u>6,332,562</u>	<u>6,332,562</u>	<u>6,535,546</u>
5920 Federal Program Revenues:				
Title I - Improving Basic Programs	-	314,117	314,117	346,003
Title II - Supporting Effective Instruction	-	16,796	16,796	14,208
Title III - English Language Acquisition	-	18,860	18,860	18,536
Title IV - Academic Enrichment	-	20,403	20,403	20,058
IDEA, Part B, Special Education Grants	-	110,030	110,030	112,019
National School Lunch/Breakfast Program	-	321,260	321,260	466,486
Total Federal Program Revenues	<u>-</u>	<u>801,466</u>	<u>801,466</u>	<u>977,310</u>
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payments	<u>7,249,794</u>	<u>(7,249,794)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>7,404,557</u>	<u>(115,766)</u>	<u>7,288,791</u>	<u>7,550,163</u>

The notes to the financial Statements are an integral part of this statement.

GENESIS SCHOOLS
Statement of Financial Activities
For the Years Ended August 31, 2020 and 2019
Continued

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2020	2019
EXPENSES				
11 Instruction	3,359,427	-	3,359,427	3,144,373
12 Instructional Resources & Media Services	225	-	225	173
13 Curriculum Development & Instructional Staff Development	367,188	-	367,188	413,891
21 Instructional Leadership	179,114	-	179,114	171,490
23 School Leadership	477,285	-	477,285	493,375
31 Guidance, Counseling & Evaluation Services	89,855	-	89,855	61,154
33 Health Services	5,865	-	5,865	809
34 Student (Pupil) Transportation	94,175	-	94,175	143,003
35 Food Service	391,417	-	391,417	439,714
36 Co-curricular/Extracurricular Activities	85,549	-	85,549	86,720
41 General Administrative	588,389	-	588,389	656,559
51 Facilities Maintenance & Operations	1,505,091	-	1,505,091	1,243,420
52 Security and Monitoring Service	24,129	-	24,129	47,305
53 Data Processing Service	78,947	-	78,947	91,159
61 Community Services	3,138	-	3,138	2,206
Total Expenses	<u>7,249,794</u>	<u>-</u>	<u>7,249,794</u>	<u>6,995,351</u>
Change in Net Assets	154,763	(115,766)	38,997	554,812
Net Assets - Beginning of Year	<u>944,367</u>	<u>1,112,651</u>	<u>2,057,018</u>	<u>1,502,206</u>
Net Assets - End of Year	<u>\$ 1,099,130</u>	<u>\$ 996,885</u>	<u>\$ 2,096,015</u>	<u>\$ 2,057,018</u>

The notes to the financial Statements are an integral part of this statement.

GENESIS SCHOOLS
Statement of Cash Flows
For the Years Ended August 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities:		
Local Support	\$ 171,538	\$ 16,596
State Program Payments	6,567,926	6,455,105
Federal Program Payments	719,815	1,098,231
Payments to Vendors for Goods and Services Rendered	(3,036,015)	(2,690,836)
Payments to Charter School Personnel for Services Rendered	(4,195,705)	(4,293,946)
Net Cash Provided by Operating Activities	227,559	585,150
 Net Change in Cash & Cash Equivalents	 227,559	 585,150
 Cash & Equivalents at Beginning of Year	 1,308,128	 722,978
 Cash & Equivalents at End of Year	 \$ 1,535,687	 \$ 1,308,128

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Increase/(Decrease) in Net Assets	\$ 38,997	\$ 554,812
 Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	29,508	58,523
(Increase)/Decrease in:		
Due from State	153,713	40,480
Receivables	3,239	(20,711)
Increase/(Decrease) in:		
Accounts Payable	(11,434)	(47,655)
Accrued Wages	-	(299)
Unearned Revenue	13,536	-
Net Cash Provided by Operating Activities	\$ 227,559	\$ 585,150

The notes to the financial Statements are an integral part of this statement.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of Genesis Schools (the "Charter Holder") dba Pegasus School of Liberal Arts and Sciences (a non-profit corporation) were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Charter Holder is a not-for-profit organization incorporated in the State of Texas in 1996 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Charter Holder is governed by a Board of Directors comprised of five members. The Board of Directors is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Charter Holders.

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

Corporate Operations

The Charter Holder is designed for the serious student, is an interdisciplinary public school serving grades kindergarten through twelve, and is located in downtown Dallas, Texas. The Charter Holder was formed on March 11, 1996. The Charter Holder operates under an open enrollment charter granted by the Texas State Board of Education. This charter was originally issued for a period of five years and is subject to review and renewal prior to the expiration date of the original charter. The Charter Holder renewed the original charter in 2012 for a period of ten years. The Charter Holder is part of the public charter school system of the State of Texas and is therefore entitled to distribution from the Texas Education Agency's ("TEA") available school fund. The Charter Holder does not have the authority to impose ad valorem taxes or to charge tuition.

Basis of Presentation

In order to comply with accounting principles generally accepted in the United States of America, the School must prepare its external financial statements in accordance with statements issued by the Financial Accounting Standard Board as described in the AICPA Audit and Accounting Guide for not-for-profit organizations. The Audit Guide requires classification of the School's net assets and its revenues, expenses, gains, and losses based on the existence or absences of donor-imposed restrictions. It requires that the amounts for each of two classes of net assets – without donor restrictions and with donor restrictions - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Charter Holder, the charter school and/or the passage of time. When a restriction expires, with donor restrictions net assets are reclassified to without donor restrictions and reported in the Statement of Activities as net assets released from donor restrictions.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash & Cash Equivalents

For financial statement purposes, the Charter Holder considers all highly liquid investment instruments with an original maturity of six 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 Charter Holder 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 or the lease period of leasehold improvements, 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.

Contributions

The Charter Holder accounts for contributions as without donor restrictions or with donor restrictions 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 with donor restrictions net assets in the reporting period in which the support is recognized. When a restriction expires, with donor restrictions net assets are reclassified to without donor restrictions net assets and reported in the Statement of Activities as net assets released from donor restrictions.

Use of Estimates

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

INVESTMENTS

Investments are stated at fair value and are as follows:

	<u>2020</u>	<u>2019</u>
Certificates of Deposit	<u>\$ 64,677</u>	<u>\$ 64,677</u>

Disclosures about Fair Value of Financial Instruments

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments – Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. The School does not have, at August 31, 2020, or at any time during the year, any investments classified as Level 2 or Level 3.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

INVESTMENTS *(continued)*

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2020 and 2019.

	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 64,677	\$ 64,677	\$ -	\$ -

LIQUIDITY & AVAILABILITY

Financial assets available for general expenditure, that is without donor or other restrictions limiting the use, within one year of the date of the statement of financial position, comprise the following:

Cash & Cash Equivalents	\$ 1,535,687
Investments	64,677
Due from State	574,665
Receivables	46,584
Total Financial Assets	\$ 2,221,613
Less: Donor Restrictions	(996,885)
	<u>\$ 1,224,728</u>

As of August 31, 2020, the School maintained \$2,221,613 in total financial assets, of which \$996,885 was considered restricted. The remaining \$1,224,728 is available for general expenditure.

DUE FROM STATE

As of August 31, 2020 and 2019, the Charter Holder had earned the following revenues which were not received until after the fiscal year end:

	2020	2019
State Foundation Program	\$ 397,544	\$ 603,257
State Textbook Fund	-	29,651
Title I - Improving Basic Programs	123,101	29,238
Title II - Supporting Effective Instruction	3,928	8,954
Title III - English Language Acquisition	5,035	2,674
Title IV - Academic Enrichment	14,761	12,125
IDEA - Part B, Special Education Grants	15,649	6,100
Child Nutrition Program	14,647	36,379
Total	<u>\$ 574,665</u>	<u>\$ 728,378</u>

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

CAPITAL ASSETS

Capital assets at August 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Building Improvements	\$ 859,264	\$ 859,264
Equipment	<u>106,523</u>	<u>106,523</u>
Total Property & Equipment	965,787	965,787
Less: Accumulated Depreciation	<u>(947,516)</u>	<u>(918,008)</u>
Total Property & Equipment, Net	<u>\$ 18,271</u>	<u>\$ 47,779</u>

Depreciation expense for the years ended August 31, 2020 and 2019 was \$29,508 and \$58,523 respectively.

OPERATING LEASES

On May 11, 2018, The Charter Holder amended a lease with Brama Commerce Street, Ltd. for space known as the Manor House. The lease amendment extends the lease period an additional seven years and expires August 31, 2025.

On July 18, 2016, the Charter Holder renewed a lease agreement with the YMCA extending through August 31, 2021 with a total leased space of 27,920 square feet.

On February 6, 2019, the Charter Holder entered into a copier lease agreement with the Documentworks of DFW, LLC, by early cancelling the copier lease with the EverBank (TIAA Commercial Finance). The new copier lease term extending through March 31, 2024 for the use of seven copy machines.

The Charter Holder amended an operating lease on September 1, 2019 with Canton Main Properties, Ltd, for office space. The lease amendment extends the lease period through December 31, 2020, at which point the lease will convert to a month-to-month basis.

Future minimum lease payments for fiscal years ended August 31st are as follows:

<u>Period Ending</u> <u>August 31</u>	<u>Amount</u>
2021	\$ 1,138,701
2022	1,024,534
2023	711,874
2024	711,652
2025	706,511
Thereafter	<u>236,845</u>
Total	<u>\$ 4,530,117</u>

NET ASSETS WITH DONOR RESTRICTIONS

The School reports gifts of cash and other assets as with donor restrictions support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restrictions net assets are classified to without donor restrictions net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as without donor restrictions support.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

NET ASSETS WITH DONOR RESTRICTIONS *(continued)*

Net assets with donor restrictions were released from restrictions by incurring expenses satisfying the following restricted purposes:

State Funded Educational Programs	\$ 6,448,328
Federally Funded Educational Programs	<u>801,466</u>
Total	<u><u>\$ 7,249,794</u></u>

At August 31, 2020, net assets with donor restrictions, are available for the following purposes:

State Funded Educational Programs	\$ 996,885
Total	<u><u>\$ 996,885</u></u>

DEFINED BENEFIT PENSION PLANS

Plan Description

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

Funding Policy

Under provisions of State law, plan members are required to contribute 7.7% of their annual covered salary and the State of Texas contributes an amount equal to 7.5% of the Schools covered payroll. The School's employee contributions to the System for the fiscal year ending August 31, 2020 and 2019 were \$275,336 and \$282,404, respectively, and were equal to the required State of Texas' contributions for the year.

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

Charter Schools are legally separate entities from the State and each other. Assets contributed by one Charter School may be used for the benefit of another Charter School. Unfunded pension obligations get passed along to other plan participants. There is no penalty for leaving the TRS system.

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov/TRS%20Documents/cafr2019.pdf>; selecting About TRS then Publications then Financial Reports, or by writing to TRS at 1000 Red River Street, Austin, TX, 78701; or by calling (512) 542-6592.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

DEFINED BENEFIT PENSION PLANS *(continued)*

Pension Plan Fiduciary Net Position *(continued)*

The information provided in the Notes to the Financial Statements in the 2019 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan:

Total Plan Assets	\$ 160,233,295,324
Accumulated Benefit Obligations	\$ 209,719,687,047
Percentage of the Plan that is funded	76.40%

Benefits Provided

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

Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2020 thru 2025.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

DEFINED BENEFIT PENSION PLANS *(continued)*

Contributions *(continued)*

	<u>2020</u>	<u>2019</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	7.5%	6.8%
Employers	7.5%	6.8%
Employer Contributions	\$ 133,498	\$ 63,990

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

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (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
- When any part 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.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.
- When the employing district is a public or charter school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. This contribution rate called the Public Education Employer Contribution will replace the Non (OASDI) surcharge that was in effect in fiscal year 2019.

In addition to the employer contributions listed above, there is an additional surcharge an employer is subject to:

- 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.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

DEFINED BENEFIT PENSION PLANS *(continued)*

Actuarial Assumptions

The total pension liability in the August 31, 2019 actuarial was determined using the following actuarial assumptions:

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-Term Expected Investment Rate of Return	7.25%
Municipal Bond Rate as of August 2019	2.63%
Inflation Rate	2.30%
Salary Increases including inflation	3.05% to 9.05%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
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, 2018. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

Discount Rate

A single discount rate of 7.25% 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 7.25%. 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. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

DEFINED BENEFIT PENSION PLANS *(continued)*

Discount Rate *(continued)*

<u>Asset Class</u>	<u>FY 2019 Target Allocation (a) %</u>	<u>New Target Allocation (b) %</u>	<u>Long-Term Expected Geometric Real Rate of Return (c)</u>
Global Equity			
U.S.	18.0%	18.0%	6.4%
Non-U.S. Developed	13.0%	13.0%	6.3%
Emerging Markets	9.0%	9.0%	7.3%
Directional Hedge Funds	4.0%	0.0%	0.0%
Private Equity	13.0%	14.0%	8.4%
Stable Value			
U.S. Treasuries (d)	11.0%	16.0%	3.1%
Stable Value Hedge Funds	0.0%	0.0%	0.0%
Absolute Return	4.0%	5.0%	4.5%
Real Return			
Global Inflation Linked Bonds (d)	3.0%	0.0%	0.0%
Real Assets	14.0%	15.0%	8.5%
Energy, Natural Resources, & Infrastructure	5.0%	6.0%	7.3%
Commodities	0.0%	0.0%	0.0%
Risk Parity			
Risk Parity	5.0%	8.0%	5.8%/6.5% (e)
Leverage			
Cash	1.0%	2.0%	2.5%
Asset Allocation Leverage	0.0%	-6.0%	2.7%
Total	100.0%	100.0%	7.23%

(a) FY 2019 Target allocation is based on the Strategic Asset Allocation dated 10/01/2018.

(b) New Target Allocation is based on the Strategic Asset dated 10/01/2019.

(c) 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%.

(d) New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds.

(e) 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility.

HEALTH CARE COVERAGE

During the year ended August 31, 2020, employees of the Charter Holder were covered by a health insurance plan (the "Plan"). The Charter Holder contributes \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

COMMITMENTS & CONTINGENCIES

The Charter Holder 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 Holder have complex compliance requirements and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so, determined by the Texas Education Agency or the grantor agency.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2020 and 2019

RELATED PARTY TRANSACTIONS

The Charter Holder has a Board member who is also CEO of Pegasus School of Liberal Arts and Sciences. The CEO also has a daughter that is employed by Pegasus as Assistant Superintendent. The Pegasus Board of Directors believes that those individuals are compensated commensurate with their qualifications and experience.

The Charter Holder contracted with the Lannen Firm for legal services for the year ended August 31, 2020. The owner of the Lannen Firm is the spouse of a Board member (who is the Superintendent). The Superintendent filed an affidavit and abstention from voting form with the Board secretary in accordance with Local Government Code, Chapter 171, Subtitle C.

Each of the employees were employed by Pegasus prior to September 1, 2013 and each is considered to have been in continuous employment and is not prohibited from continuing employment by the school for purposes of Section 12.1055 {d} Texas Education Code.

CHARTER HOLDER OPERATIONS

The Charter Holder operated one charter school, Pegasus School of Liberal Arts and Sciences, and did not conduct any other charter or non-charter activities.

EVALUATION OF SUBSEQUENT EVENTS

The Charter Holder has evaluated subsequent events through January 19, 2021, the date which the financial statements were available to be issued.

T. E. A. REQUIRED SCHEDULES

GENESIS SCHOOLS
Schedule of Expenses
For the Years Ended August 31, 2020 and 2019

EXPENSES	<u>2020</u>	<u>2019</u>
6100 Payroll Cost	\$ 4,213,779	\$ 4,304,515
6200 Professional and Contracted Services	2,004,251	1,733,650
6300 Supplies and Materials	790,710	614,816
6400 Other Operating Costs	<u>241,054</u>	<u>342,370</u>
Total Expenses	<u>\$ 7,249,794</u>	<u>\$ 6,995,351</u>

GENESIS SCHOOLS
Statement of Capital Assets
As of August 31, 2020

CAPITAL ASSETS	Ownership Interest		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
1110 Cash and Investments	\$ -	\$ 1,600,364	\$ -
1520 Building and Improvements	-	859,264	-
1539 Furniture and Equipment	-	106,523	-
Total Capital Assets	\$ -	\$ 2,566,151	\$ -

GENESIS SCHOOLS
 Budgetary Comparison Schedule
 For the Year Ended August 31, 2020

	Budgeted Amounts		Actual Amounts	Variance From Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ -	\$ 154,763	\$ 154,763	\$ -
Total Local Support	-	154,763	154,763	-
State Program Revenues:				
5810 Foundation School Program Revenues	6,419,119	6,183,637	6,183,637	-
5820 State Program Revenues Distributed by Texas Education Agency	-	123,425	123,425	-
5830 Other State Program Revenues	-	25,500	25,500	-
Total State Program Revenues	6,419,119	6,332,562	6,332,562	-
Federal Program Revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	416,000	801,466	801,466	-
Total Federal Program Revenues	416,000	801,466	801,466	-
 Total Revenues	 6,835,119	 7,288,791	 7,288,791	 -
EXPENSES:				
Program Services:				
11 Instruction	3,162,932	3,359,427	3,359,427	-
12 Instructional Resources & Media Services	500	225	225	-
13 Curriculum Development & Instructional Staff Development	342,285	367,188	367,188	-
21 Instructional Leadership	65,023	179,114	179,114	-
23 School Leadership	465,928	477,285	477,285	-
31 Guidance, Counseling & Evaluation Services	54,447	89,855	89,855	-
33 Health Services	900	5,865	5,865	-
34 Student (Pupil) Transportation	123,813	94,175	94,175	-
35 Food Service	420,892	391,417	391,417	-
36 Co-curricular/Extracurricular Activities	77,145	85,549	85,549	-
41 General Administration	598,569	588,389	588,389	-
51 Plant Maintenance and Operations	1,379,952	1,505,091	1,505,091	-
52 Security & Monitoring Services	47,000	24,129	24,129	-
53 Data Processing Services	92,533	78,947	78,947	-
61 Community Services	3,200	3,138	3,138	-
Total Expenses	6,835,119	7,249,794	7,249,794	-
 Change in Net Assets	 -	 38,997	 38,997	 -
 Net Assets, Beginning of Year	 2,057,018	 2,057,018	 2,057,018	 -
 Net Assets, End of Year	 <u>\$ 2,057,018</u>	 <u>\$ 2,096,015</u>	 <u>\$ 2,096,015</u>	 <u>\$ -</u>

COMPLIANCE AND INTERNAL CONTROLS SECTION



**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***

To the Board of Directors of
Genesis Schools (Charter Holder)
Dallas, 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 Genesis Schools (Charter Holder) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2020, 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 19, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Genesis Schools' 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 Genesis Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Genesis Schools' 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 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.



K. Evans & Associates, CPA's
Frisco, TX
January 19, 2021



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

To the Board of Directors of
Genesis Schools (Charter Holder)
Dallas, Texas

Report on Compliance for Each Major Federal Program

We have audited Genesis Schools (Charter Holder)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Genesis Schools' major federal programs for the year ended August 31, 2020. Genesis Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Genesis Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Cost Principles*, and *Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Genesis Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Genesis Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Genesis Schools 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, 2020.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance. Our opinion on each major federal program is not modified with respect to these matters.

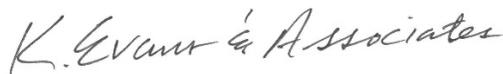
Report on Internal Control Over Compliance

Management of Genesis Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Genesis Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Genesis Schools' 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



K. Evans & Associates, CPA's
Frisco, TX
January 19, 2021

GENESIS SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2020

I. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements.
2. No significant deficiencies were disclosed during the audit of the financial statements. No material weaknesses are reported.
3. No issues of noncompliance material to the financial statements which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal controls over major federal award programs were disclosed during the audit. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Title 2 U.S. CFR Part 200, of the Uniform Guidance.
7. The programs tested as major programs were:
 - Child Nutrition Cluster:
 - National School Lunch Program (CFDA 10.555)
 - School Breakfast Program (CFDA 10.553)
8. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
9. Auditee was determined to be a low- risk auditee.

GENESIS SCHOOLS
Schedule of Status of Prior Findings
For the Year Ended August 31, 2020

<u>Program</u>	Status of Prior Year's Finding	<u>Noncompliance</u>
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- NONE -

GENESIS SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2020

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity ID Number</u>	<u>Federal Expenditures</u>
<u>Unites States Department of Education</u>			
<u>Passed Through Region X ESC:</u>			
Title I - Improving Basic Programs	84.010A	S010A1630043	\$ 314,117
Title II - Supporting Effective Instruction	84.367A	S367A160041	16,170
Title III - English Language Acquisition	84.365A	16671001057802	18,860
Title IV - Academic Enrichment	84.424A		20,403
Total Passed Through Region X ESC			<u>369,550</u>
<u>Passed Through State Department of Education:</u>			
IDEA - Part B, Formula	84.027A	206600010578026000	110,030
IDEA - Part B, Preschool	84.173A	206610010578026000	626
Total Passed Through State Department of Education			<u>110,656</u>
Total United States Department of Education			<u>480,206</u>
 <u>Unites States Department of Agriculture</u>			
<u>Passed Through State Department of Agriculture</u>			
National School Lunch	10.555	71302001	233,556
Donated Commodities	10.555		21,809
School Breakfast Program	10.553	71402001	65,895
Total Passed Through State Department of Agriculture			<u>321,260</u>
Total United States Department of Agriculture			<u>321,260</u>
Total Expenditures of Federal Awards			<u>\$ 801,466</u>

Standard Financial Accounting System

For all federal programs, the corporation used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School 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.

GENESIS SCHOOLS

Notes to Schedule of Expenditures of Federal Awards For Year Ended August 31, 2020

1. For all federal programs, the School uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide." Special revenue funds 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 a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred expenditures until earned.

3. The School participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2020 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.