

**MID-CITIES LEARNING CENTER, INC.
CHARTER HOLDER**

ANNUAL FINANCIAL AND COMPLIANCE REPORT

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

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MID-CITIES LEARNING CENTER, INC.
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2021

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MID-CITIES LEARNING CENTER, INC.
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2021

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MID-CITIES LEARNING CENTER, INC.

CERTIFICATE OF BOARD

AUGUST 31, 2021

Mid-Cities Learning Center, Inc.
Name of Charter Holder
Federal EIN: 75-1336797

Tarrant
County

220801
Co.-Dist. Number

We, the undersigned, certify that the attached Financial and Compliance Report of the above-named charter holder was reviewed and (check one) ☐ approved ☐ disapproved for the year ended August 31, 2021, at a meeting of the governing body of the charter holder on the 8th day of December, 2021.


Signature of Board Secretary


Signature of Board President

If the governing body of the charter holder does not approve the independent auditors' report, the reason(s) for disapproving it is (are): (attach list as necessary)

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FREEMON, SHAPARD & STORY

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Mid-Cities Learning Center, Inc.
12500 S. Pipeline
Euless, TX 76040

Members of the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Mid-Cities Learning Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2021 and 2020, 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.

Auditors' 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 auditors' 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 principles 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 Mid-Cities Learning Center, Inc. as of August 31, 2021 and 2020, 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 specific-purpose financial statements and the supplementary information including the Schedule of Expenses, Schedule of Capital Assets, Budgetary Comparison Schedule, and State Compensatory Education and Bilingual Education Program Expenditures are presented for purposes of additional analysis as required by the Texas Education Agency and are 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. This 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 November 1, 2021, on our consideration of Mid-Cities Learning Center, 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 Mid-Cities Learning Center'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 Mid-Cities Learning Center, Inc.'s internal control over financial reporting and compliance.

Respectfully submitted,



Freeman, Shapard, & Story
Windthorst, TX
November 1, 2021

**General-Purpose
Financial Statements**

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MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
 STATEMENT OF FINANCIAL POSITION
 AS OF AUGUST 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,893,388	\$ 1,648,262
Due from TEA	89,485	213,122
Total Current Assets	<u>1,982,873</u>	<u>1,861,384</u>
Property and Equipment		
Land and improvements	191,700	191,700
Buildings and improvements	3,878,673	3,878,673
Furniture and equipment	176,749	176,749
Less accumulated depreciation	<u>(1,999,532)</u>	<u>(1,843,790)</u>
Total Property and Equipment	<u>2,247,590</u>	<u>2,403,332</u>
 Total Assets	 \$ <u><u>4,230,463</u></u>	 \$ <u><u>4,264,716</u></u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 5,742	\$ 9,972
Accrued wages payable	178,761	166,690
Accrued expenses	14,651	14,205
Vacation benefits payable	33,353	29,991
Due to student groups	<u>16,465</u>	<u>15,815</u>
Total Current Liabilities	<u>248,972</u>	<u>236,673</u>
 Total Liabilities	 \$ <u>248,972</u>	 \$ <u>236,673</u>
Net Assets		
Without donor restrictions	297,565	322,928
With donor restrictions	<u>3,683,926</u>	<u>3,705,115</u>
 Total Net Assets	 \$ <u>3,981,491</u>	 \$ <u>4,028,043</u>
 Total Liabilities and Net Assets	 \$ <u><u>4,230,463</u></u>	 \$ <u><u>4,264,716</u></u>

The accompanying notes are an integral part of these financial statements.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	Without Donor Restrictions	With Donor Restrictions	Total 2021
REVENUES			
Local Support:			
Contributions	\$ 1,143	\$ -	\$ 1,143
Interest Income	6,743	-	6,743
Cocurricular & Enterprising Services	-	-	-
Other Revenues	11,400	-	11,400
Total Local Support	19,286	-	19,286
State Program Revenues:			
Foundation School Program	-	3,431,026	3,431,026
State Program Revenues	-	1,382	1,382
Total State Program Revenues	-	3,432,408	3,432,408
Federal Program Revenues:			
IDEA Part B, Formula	-	55,646	55,646
IDEA Part B, Preschool	-	608	608
TDEM	-	16,627	16,627
ESEA Title II, Part A-Teacher & Principal Training	-	6,351	6,351
Total Federal Program Revenues	-	79,232	79,232
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	3,395,486	(3,395,486)	-
Total Revenues	\$ 3,414,772	\$ 116,154	\$ 3,530,926
EXPENSES			
Program Services:			
Instruction & Instructional-Related Services	\$ 2,510,358	\$ -	\$ 2,510,358
Instructional & School Leadership	236,382	-	236,382
Support Services:			
Student Support Services	34,031	-	34,031
Administrative Support Services	215,083	-	215,083
Support Services - Non-Student Based	444,281	-	444,281
Fundraising	-	-	-
Total Expenses	\$ 3,440,135	\$ -	\$ 3,440,135
Other Losses:			
Extraordinary Items	-	(467,919)	(467,919)
Insurance Proceeds	-	330,576	330,576
	-	(137,343)	(137,343)
Change in Net Assets	(25,363)	(21,189)	(46,552)
Net Assets, Beginning of Year	322,928	3,705,115	4,028,043
Net Assets, End of Year	\$ 297,565	\$ 3,683,926	\$ 3,981,491

The accompanying notes are an integral part of these financial statements.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	Without Donor Restrictions	With Donor Restrictions	Total 2020
REVENUES			
Local Support:			
Contributions	\$ 14,187	\$ -	\$ 14,187
Interest Income	11,365	-	11,365
Cocurricular & Enterprising Services	-	-	-
Other Revenues	15,912	-	15,912
Total Local Support	41,464	-	41,464
State Program Revenues:			
Foundation School Program	-	3,409,113	3,409,113
State Program Revenues	-	26,531	26,531
Total State Program Revenues	-	3,435,644	3,435,644
Federal Program Revenues:			
IDEA Part B, Formula	-	52,793	52,793
IDEA Part B, Preschool	-	604	604
ESEA Title II, Part A-Teacher & Principal Training	-	5,215	5,215
Total Federal Program Revenues	-	58,612	58,612
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	3,296,889	(3,296,889)	-
Total Revenues	\$ 3,338,353	\$ 197,367	\$ 3,535,720
EXPENSES			
Program Services:			
Instruction & Instructional-Related Services	\$ 2,584,132	\$ -	\$ 2,584,132
Instructional & School Leadership	154,985	-	154,985
Support Services:			
Student Support Services	32,203	-	32,203
Administrative Support Services	212,284	-	212,284
Support Services - Non-Student Based	406,142	-	406,142
Fundraising	-	-	-
Total Expenses	\$ 3,389,746	\$ -	\$ 3,389,746
Other Gains:			
Insurance Proceeds	-	8,062	8,062
Change in Net Assets	(51,393)	205,429	154,036
Net Assets, Beginning of Year	374,321	3,499,686	3,874,007
Net Assets, End of Year	\$ 322,928	\$ 3,705,115	\$ 4,028,043

The accompanying notes are an integral part of these financial statements.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	Program Services	Management and General	2021 Total
Expenses			
Salaries and Wages	\$ 2,225,175	\$ 116,572	\$ 2,341,747
Benefits	207,631	7,335	214,966
Payroll Taxes	170,500	8,220	178,720
Total Payroll Expenses	2,603,306	132,127	2,735,433
Professional Services	53,878	24,630	78,508
Legal	-	8,333	8,333
Education Service Center Services	29,620	8,493	38,113
Repairs and Maintenance	107,480	-	107,480
Utilities	70,517	3,711	74,228
Rentals	-	7,062	7,062
Maintenance Supplies	-	15,392	15,392
Instructional Materials	847	-	847
Food Service	914	-	914
General Supplies	169,608	1,964	171,572
Travel	1,785	-	1,785
Insurance	14,200	1,721	15,921
Miscellaneous	-	28,806	28,806
Total Non-Payroll Expenses	448,849	100,112	548,961
Total Before Depreciation	3,052,155	232,239	3,284,394
Depreciation	153,793	1,948	155,741
Total Expenses	\$ 3,205,948	\$ 234,187	\$ 3,440,135

The accompanying notes are an integral part of these financial statements.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
 STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	Program Services	Management and General	2020 Total
Expenses			
Salaries and Wages	\$ 2,118,546	\$ 109,067	\$ 2,227,613
Benefits	206,055	8,241	214,296
Payroll Taxes	168,012	7,627	175,639
Total Payroll Expenses	<u>2,492,613</u>	<u>124,935</u>	<u>2,617,548</u>
Professional Services	45,183	42,470	87,653
Legal	-	1,935	1,935
Education Service Center Services	30,358	7,135	37,493
Repairs and Maintenance	79,252	-	79,252
Utilities	65,790	3,463	69,253
Rentals	43,881	5,926	49,807
Maintenance Supplies	-	40,961	40,961
Instructional Materials	1,391	-	1,391
Food Service	234	-	234
General Supplies	207,073	1,302	208,375
Travel	1,877	590	2,467
Insurance	10,584	1,176	11,760
Miscellaneous	-	25,078	25,078
Total Non-Payroll Expenses	<u>485,623</u>	<u>130,036</u>	<u>615,659</u>
Total Before Depreciation	2,978,236	254,971	3,233,207
Depreciation	<u>154,591</u>	<u>1,948</u>	<u>156,539</u>
Total Expenses	<u>\$ 3,132,827</u>	<u>\$ 256,919</u>	<u>\$ 3,389,746</u>

The accompanying notes are an integral part of these financial statements.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (46,552)	\$ 154,036
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	155,742	156,539
(Increase) Decrease in due from TEA	123,637	(4,754)
Increase (Decrease) in accounts payable	(4,230)	6,291
Increase (Decrease) in accrued wages payable	12,071	15,723
Increase (Decrease) in accrued expenses	446	1,893
Increase (Decrease) in due to student groups	650	2,332
Increase (Decrease) in vacation benefits payable	3,362	2,936
Net cash provided (used) by operating activities	245,126	334,996
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land Improvements, Buildings, and Equipment	-	(135,001)
Disposal of Land Improvements, Buildings, and Equipment	-	-
Net cash provided (used) by investing activities	-	(135,001)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	-	-
Net cash provided (used) by financing activities	-	-
Net increase (decrease) in cash and cash equivalents	245,126	199,995
Cash and cash equivalents, beginning of year	1,648,262	1,448,267
Cash and cash equivalents, end of year	\$ 1,893,388	\$ 1,648,262
Interest paid during the period ended August 31, 2021 and 2020	\$ None	\$ None
Income taxes paid during the period ended August 31, 2021 and 2020	-	-

The accompanying notes are an integral part of these financial statements.

**Notes to the
Financial Statements**

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of Mid-Cities Learning Center, Inc. (the corporation) were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

A. *Reporting Entity*

The corporation is a not-for-profit organization incorporated in the State of Texas in 1972 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 has the authority to make decisions, appoint the chief executive officer 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.

B. *Corporate Operations*

Mid-Cities Learning Center, Inc. is operating an open-enrollment charter school providing education to K through 12th grade students authorized under Chapter 12, Subchapter D of the Texas Education Code. The Texas State Board of Education issued the initial charter to Mid-Cities Learning Center, Inc. for a period of five years from August 1, 1998 to July 31, 2003. Total enrollment was limited to 480 students. Subsequent to the awarding of the initial charter, the corporation applied for and received a charter renewal in May 2003 extending the charter ten years to July 31, 2013. In June of 2013, the corporation received another charter renewal extending the charter an additional ten years to July 31, 2023. On March 8, 2016, a charter amendment was approved increasing maximum enrollment to 600 students.

C. *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 With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions 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.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

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.

D. *Use of Estimates*

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

E. *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.

No amounts have been reflected in the financial statements for donated materials or services since no objective basis is available to measure the value thereof; however, a substantial number of volunteers donate their time to the School program services and in fund-raising activities.

F. *Cash and Cash Equivalents*

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

G. *Capital Assets*

Capital assets, which include land, 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 five to forty 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.

H. *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 programs and supporting services benefited.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

I. *Personal Leave*

Full-time employees of the school earn five days of paid personal leave per year, and part-time employees earn two-and-a-half days of paid personal leave per year. However, the balance does not accumulate except for the executive director. The accrued liability on the financial statements for her vested vacation payable was calculated based on her 54 days of accumulated personal leave at 8/31/21.

2. CASH DEPOSITS

The corporation's funds were deposited and invested with Plains Capital Bank during the year ended August 31, 2021 and 2020. The depository bank should deposit for safekeeping and trust with the corporation's agent banks approved pledged securities in an amount sufficient to protect corporate 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, 2021, the carrying amount of the corporation's deposits at Plains Capital Bank (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,893,388, and the bank balance was \$1,940,178. The charter holder's cash deposits at August 31, 2021, and during the year ended August 31, 2021, were adequately covered by FDIC insurance and by pledged collateral held by the corporation's agent bank in the corporation's name.

At August 31, 2020, the carrying amount of the corporation's deposits at Plains Capital Bank (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,648,262, and the bank balance was \$1,704,048. The charter holder's cash deposits at August 31, 2020, and during the year ended August 31, 2020, were adequately covered by FDIC insurance and by pledged collateral held by the corporation's agent bank in the corporation's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit for the deposits at Plains Capital Bank:

- a. Depository: Plains Capital Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$2,196,686.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$2,081,143 and occurred during the month of August 2021.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

3. DEFINED BENEFIT PENSION PLAN

A. *Plan Description*

Mid-Cities Learning Center, Inc. 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, Sec. 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.

B. *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 (ACFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://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.

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

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

C. *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

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

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 in (A) above.

Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in the manner are determined by the System's actuary.

In May 2019, the 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 month annuity or \$2,000, whichever was less.

D. 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 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% 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 increased employee and employer contribution rates for fiscal years 2020 thru 2025. Contribution rates can be found in the TRS 2020 ACFR, Note 11, on page 82.

Contribution Rates		
	2021	2020
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	7.5%	7.5%
Employers	7.5%	7.5%
Charter Holder's Employer Contributions	\$ 62,684	\$ 56,246
Charter Holder's Member Contributions	\$176,662	\$168,351
Measurement Year	2020	2019
Charter Holder's NECE On-Behalf Contributions	\$ 139,892	\$ 134,142

Contributors to the plan include members, employers, and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

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

- All public schools, charter schools, and regional educational service centers must contribute 1.5 percent of the member's salary beginning in fiscal year 2020, gradually increasing to 2 percent in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

E. *Actuarial Assumptions*

The total pension liability in the August 31, 2019, actuarial valuation was determined using the following actuarial assumptions: Actuarial assumptions can be found in the 2020 TRS ACFR, Note 11, page 82 and 83.

Valuation Date	August 31, 2019 rolled forward to August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-Term Expected Rate	7.25%
Municipal Bond Rate	2.33%*
Last year ending August 31 in Projection Period (100 years)	2119
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad hoc Post Employment Benefit Changes	None

**Source: Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2020.*

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2019. For a full description of these assumptions, please see the actuarial valuation report dated November 14, 2019.

F. Discount Rate

A single discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25 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. It is assumed that future employers 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.

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 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, 2020 (see page 53 of the TRS ACFR) are summarized below:

Asset Class	Target Allocation %*	Long-Term Expected Arithmetic Real Rate of Return**	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18%	3.9%	0.99%
Non-U.S. Developed	13%	5.1%	0.92%
Emerging Markets	9%	5.6%	0.83%
Private Equity	14%	6.7%	1.41%
Stable Value			
Government Bonds	16%	-0.7%	-0.05%
Stable Value Hedge	5%	1.9%	0.11%
Real Return			
Real Estate	15%	4.6%	1.01%
Energy, Natural Resources, and Infrastructure	6%	6.0%	0.42%

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
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Risk Parity			
Risk Parity	8%	3.0%	0.30%
Leverage			
Cash	2%	-1.5%	-0.03%
Asset Allocation Leverage	-6%	-1.3%	0.08%
Inflation Expectation			2.00%
Volatility Drag***			-0.67%
Total	100%		7.33%

* Target allocations are based on the FY2020 policy model.

** Capital Market Assumptions come from Aon Hewitt (as of 08/31/2020)

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

G. Discount Rate Sensitivity Analysis

The following table presents the Net Pension Liability of the plan using the discount rate of 7.25 percent, and what the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25 percent) or 1% higher (8.25 percent) than the current rate. The discount rate can be found in the 2020 TRS ACFR, Note 11, page 84.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
Mid-Cities Learning Center, Inc.'s proportionate share of the net pension liability	\$1,126,305	\$730,427	\$408,784

H. Pension Liabilities

At August 31, 2020, Mid-Cities Learning Center, Inc. disclosed a liability of \$730,427 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Mid-Cities Learning Center, Inc. The amount recognized by Mid-Cities Learning Center, Inc. as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Mid-Cities Learning Center, Inc. were as follows:

Charter school's proportionate share of the collective net pension liability	\$ 730,427
State's proportionate share that is associated with the charter school	<u>1,815,869</u>
Total	<u>\$2,546,296</u>

The net pension liability was measured as of August 31, 2019 and rolled forward to August 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2019 through August 31, 2020.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

At August 31, 2020, the employer's proportion of the collective net pension liability was .0013638058% which was an increase from its proportion of .0001727940% measured as of August 31, 2019.

I. *Changes Since the Prior Actuarial Valuation*

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

J. *Additional Plans*

Employees of the corporation are also provided with Social Security and Medicare coverage. Under provisions of federal law, covered employees contribute 6.2% (Social Security) and 1.45% (Medicare) of their annual covered salary, and the corporation contributes 6.2% (Social Security) and 1.45% (Medicare) of the covered payroll.

4. **DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS**

A. *Plan Description*

Mid-Cities Learning Center, Inc. participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan with a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature.

The TRS Board of Trustees administers the TRS-Care program and the related fund in accordance with Texas Insurance Code, Chapter 1575. 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.

B. *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.

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

<u>Net OPEB Liability</u>	<u>Total</u>
Total OPEB Liability	\$ 40,010,833,815
Less: Plan Fiduciary Net Position	<u>(1,996,317,932)</u>
Net OPEB Liability	<u>\$ 38,014,515,883</u>
Net Position as a Percentage of Total OPEB Liability	4.99%

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
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C. *Benefits Provided*

TRS-Care provides health insurance coverage to retirees from public and 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 reflected in the following table.

TRS-Care Monthly Premium Rates		
	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree or Surviving Spouse	\$ 135	\$200
Retiree and Spouse	\$ 529	\$689
Retiree or Surviving Spouse and Children	\$ 468	\$408
Retiree and Family	\$1,020	\$999

D. *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 schools based upon public school payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, Sections 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the 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.

Contribution Rates				
	<u>2021</u>		<u>2020</u>	
Active Employee	0.65%		0.65%	
State	1.25%		1.25%	
Employers	0.75%		0.75%	
Federal/Private Funding	1.25%		1.25%	
Employer Contributions	2021	\$ 17,951	2020	\$17,024
Member Contributions	2021	\$ 14,913	2020	\$14,212
NECE On-Behalf Contributions	2020	\$ 22,876	2019	\$22,018

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
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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 supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$230.8 million in fiscal year 2020 to maintain premiums and benefit levels in the 2020-2021 biennium.

E. Actuarial Assumptions

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

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. All the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2019 TRS pension actuarial valuation that was rolled forward to August 31, 2020:

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2019 rolled forward to August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.33% as of August 31, 2020
Aging Factors	Based on Plan Specific Experience
Election Rates	Normal Retirement: 65% participation prior to age 65 and 40% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
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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% - 9.05%, including inflation
Ad-hoc Post Employment Benefit Changes	None

F. *Discount Rate*

A single discount rate of 2.33% was used to measure the total OPEB liability. There was a decrease of .30 percent in the discount rate since the previous year. The Discount Rate can be found in the 2020 TRS ACFR on page 76. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was 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, 2020, using the fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

G. *Discount Rate Sensitivity Analysis*

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

	1% Decrease in Discount Rate (1.33%)	Current Single Discount Rate (2.33%)	1% Increase in Discount Rate (3.33%)
Mid-Cities Learning Center, Inc.'s proportionate share of the Net OPEB Liability:	\$1,021,734	\$851,447	\$716,944

H. *OPEB Liabilities and OPEB Expense*

At August 31, 2020, Mid-Cities Learning Center, Inc. disclosed a liability of \$851,447 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the school. The amount recognized by the school 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 Mid-Cities Learning Center, Inc. were as follows:

School's Proportionate share of the collective net OPEB liability	\$ 851,447
State's proportionate share that is associated with the School	<u>1,144,141</u>
Total	<u>\$ 1,995,588</u>

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

The Net OPEB Liability was measured as of August 31, 2019 and rolled forward to August 31, 2020, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to OPEB relative to the contributions of all employers to the plan for the period September 1, 2019 thru August 31, 2020.

At August 31, 2021, the employer's proportion of the collective Net OPEB Liability was 0.0022397941% compared to 0.002334854% at August 31, 2020.

I. Healthcare Cost Trend Rates Sensitivity Analysis

The following schedule shows the impact of the Net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the health trend rates assumed.

	1% Decrease in Healthcare Trend Rate (7.5%)	Current Single Healthcare Trend Rate (8.5%)	1% Increase in Healthcare Trend Rate (9.5%)
Mid-Cities Learning Center, Inc.'s proportionate share of the Net OPEB Liability:	\$695,523	\$851,447	\$1,059,115

J. Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period: *These can be found in the TRS ACFR on page 76.*

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

Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

5. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2021 and 2020, the corporation's liability for accrued sick leave or vacation leave was \$33,353 and \$29,991.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

6. HEATH CARE COVERAGE

During the year ended August 31, 2021 and 2020, employees of the charter school were covered by a health insurance plan (the Plan). The charter school contributed \$450 per month per employee in 2020-21 and \$450 per month in 2019-20 per employee to the Plan for each employee who takes TRS Active Care Insurance. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

7. 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 combined financial statements for such contingencies.

8. ECONOMIC DEPENDENCY

During the year ended August 31, 2021, the charter school earned revenue of \$3,432,408 from the Texas Education Agency (TEA). This constitutes approximately 97.21% of total revenue earned. Any unforeseen loss of this 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.

9. CAPITAL ASSETS

Capital assets at August 31, 2021 and 2020, were as follows:

	Balance			Balance
	<u>8/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>8/31/2021</u>
Land & Improvements	\$ 191,700	\$ -	\$ -	\$ 191,700
Buildings & Improvements	3,878,673	-	-	3,878,673
Furniture & Equipment	176,749	-	-	176,749
Accumulated Depreciation	<u>(1,843,790)</u>	<u>(155,742)</u>	<u>-</u>	<u>(1,999,532)</u>
Property & Equipment, Net	<u>\$ 2,403,332</u>	<u>\$ (155,742)</u>	<u>\$ -</u>	<u>\$ 2,247,590</u>

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

	Balance 8/31/2019	Additions	Deletions	Balance 8/31/2020
Land	\$ 191,700	\$ -	\$ -	\$ 191,700
Buildings & Improvements	3,753,759	124,914	-	3,878,673
Furniture & Equipment	166,662	10,087	-	176,749
Accumulated Depreciation	<u>(1,687,251)</u>	<u>(156,539)</u>	<u>-</u>	<u>(1,843,790)</u>
Property & Equipment, Net	<u>\$ 2,424,870</u>	<u>\$ (21,538)</u>	<u>\$ -</u>	<u>\$ 2,403,332</u>

Capital assets acquired with public funds received by the corporation for the operation of Treetops International Schools, Inc. constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net Assets With Donor Restrictions for the years ending August 31, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Foundation School Program	\$ 3,675,735	\$ 3,697,458
School Safety and Security	534	-
Campus Activity	<u>7,657</u>	<u>7,657</u>
Total Net Assets With Donor Restrictions	<u>\$ 3,683,926</u>	<u>\$ 3,705,115</u>

11. LEASES

A copier lease agreement was entered into with Everbank Commercial Finance for \$564 a month for 36 months beginning March 6, 2018. This lease ended March 6, 2021, and is currently just a month to month lease. Therefore, future minimum payments under noncancelable operating leases as of August 31, 2021, is \$0.

Rent expense was \$7,062 and \$49,807 for the years ended August 31, 2021 and 2020, respectively.

12. RELATED PARTY TRANSACTIONS

Mid-Cities Learning Center, Inc. paid Mike Cox, husband of the Executive Director of Mid-Cities Learning Center, Inc., \$37,033 for repairs and maintenance on school projects such as tree limb removal, replacing lights, and fence work.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

13. INCOME TAX

On December 30, 2008, 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, 2021, and as a result, there was no income tax liability.

14. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the corporation through financial statement 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 continued COVID-19 pandemic, economic uncertainties have arisen which could have a negative effect on operations. There continues to be considerable uncertainty around the duration of this pandemic. Therefore, the potential impact is currently unknown.

15. 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, comprise the following:

Cash and cash equivalents	\$ 26,311
Fixed assets	<u>271,254</u>
	<u>\$297,565</u>

Except for the financial assets listed above, Mid-Cities Learning Center Inc.'s cash, due from TEA, and fixed assets' use are restricted by the Texas Education Agency, federal agencies, and donors for charter school operations. As part of the corporation's liquidity management plan, \$864,743 of cash is invested in certificates of deposit.

16. EXTRAORDINARY ITEMS

Winter Storm Uri was a major winter and ice storm that hit the school in February of 2021. This storm caused the pipes to freeze and bust in the science lab, 3 portables buildings, and gym. It ruined walls, floor, furniture, computers, and electronics. The cost of replacing the equipment and repairs was \$467,919. The insurance covered \$330,576 of this damage.

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**Specific-Purpose
Financial Statements**

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TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,893,388	\$ 1,648,262
Due from TEA	89,485	213,122
Total Current Assets	<u>1,982,873</u>	<u>1,861,384</u>
Property and Equipment		
Land and improvements	191,700	191,700
Buildings and improvements	3,878,673	3,878,673
Furniture and equipment	176,749	176,749
Less accumulated depreciation	<u>(1,999,532)</u>	<u>(1,843,790)</u>
Total Property and Equipment	<u>2,247,590</u>	<u>2,403,332</u>
 Total Assets	 <u>\$ 4,230,463</u>	 <u>\$ 4,264,716</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 5,742	\$ 9,972
Accrued wages payable	178,761	166,690
Accrued expenses	14,651	14,205
Vacation benefits payable	33,353	29,991
Due to student groups	16,465	15,815
Total Current Liabilities	<u>248,972</u>	<u>236,673</u>
 Total Liabilities	 <u>\$ 248,972</u>	 <u>\$ 236,673</u>
Net Assets		
Without donor restrictions	297,565	322,928
With donor restrictions	<u>3,683,926</u>	<u>3,705,115</u>
 Total Net Assets	 <u>\$ 3,981,491</u>	 <u>\$ 4,028,043</u>
 Total Liabilities and Net Assets	 <u>\$ 4,230,463</u>	 <u>\$ 4,264,716</u>

The accompanying notes are an integral part of these financial statements.

TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	Without Donor Restrictions	With Donor Restrictions	2021 Totals
Revenues			
Local Support:			
5740 Other Revenues from Local Sources	\$ 19,286	\$ -	\$ 19,286
5750 Cocurricular, Enterprising Activities	-	-	-
Total Local Support	19,286	-	19,286
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	3,431,026	3,431,026
5820 State Program Revenues Distributed by TEA	-	1,382	1,382
Total State Program Revenues	-	3,432,408	3,432,408
Federal Program Revenues:			
5920 Federal Revenues Distributed by TEA	-	62,605	62,605
5930 Federal Revenues Distributed by Other State Agencies	-	16,627	16,627
Total Federal Program Revenues	-	79,232	79,232
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	3,395,486	(3,395,486)	-
Total Revenues	\$ 3,414,772	\$ 116,154	\$ 3,530,926
Expenses			
11 Instruction	\$ 2,508,573	\$ -	\$ 2,508,573
13 Curriculum and Instructional Staff Development	1,785	-	1,785
21 Instructional Leadership	6,346	-	6,346
23 School Leadership	230,036	-	230,036
31 Guidance, Counseling, and Evaluation Services	31,318	-	31,318
33 Health Services	1,799	-	1,799
35 Food Services	914	-	914
41 General Administration	215,083	-	215,083
51 Plant Maintenance and Operations	308,353	-	308,353
53 Data Processing Services	135,928	-	135,928
81 Fundraising	-	-	-
Total Expenses	\$ 3,440,135	\$ -	\$ 3,440,135
Other Losses:			
Extraordinary Items	-	(467,919)	(467,919)
Insurance Proceeds	-	330,576	330,576
	-	(137,343)	(137,343)
Change in Net Assets	(25,363)	(21,189)	(46,552)
Net Assets, Beginning of Year	322,928	3,705,115	4,028,043
Net Assets, End of Year	\$ 297,565	\$ 3,683,926	\$ 3,981,491

The accompanying notes are an integral part of these financial statements.

TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	Without Donor Restrictions	With Donor Restrictions	2020 Totals
Revenues			
Local Support:			
5740 Other Revenues from Local Sources	\$ 41,464	\$ -	\$ 41,464
5750 Cocurricular, Enterprising Activities	-	-	-
Total Local Support	41,464	-	41,464
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	3,409,113	3,409,113
5820 State Program Revenues Distributed by TEA	-	26,531	26,531
Total State Program Revenues	-	3,435,644	3,435,644
Federal Program Revenues:			
5920 Federal Revenues Distributed by TEA	-	58,612	58,612
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	3,296,889	(3,296,889)	-
Total Revenues	\$ 3,338,353	\$ 197,367	\$ 3,535,720
Expenses			
11 Instruction	\$ 2,582,255	\$ -	\$ 2,582,255
13 Curriculum and Instructional Staff Development	1,877	-	1,877
21 Instructional Leadership	6,199	-	6,199
23 School Leadership	148,786	-	148,786
31 Guidance, Counseling, and Evaluation Services	30,780	-	30,780
33 Health Services	1,189	-	1,189
35 Food Services	234	-	234
41 General Administration	212,284	-	212,284
51 Plant Maintenance and Operations	293,168	-	293,168
53 Data Processing Services	112,974	-	112,974
81 Fundraising	-	-	-
Total Expenses	\$ 3,389,746	\$ -	\$ 3,389,746
Other Gains:			
Insurance Proceeds	-	8,062	8,062
Change in Net Assets	(51,393)	205,429	154,036
Net Assets, Beginning of Year	374,321	3,499,686	3,874,007
Net Assets, End of Year	\$ 322,928	\$ 3,705,115	\$ 4,028,043

The accompanying notes are an integral part of these financial statements.

TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (46,552)	\$ 154,036
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	155,742	156,539
(Increase) Decrease in due from TEA	123,637	(4,754)
Increase (Decrease) in accounts payable	(4,230)	6,291
Increase (Decrease) in accrued wages payable	12,071	15,723
Increase (Decrease) in accrued expenses	446	1,893
Increase (Decrease) in due to student groups	650	2,332
Increase (Decrease) in vacation benefits payable	3,362	2,936
Net cash provided (used) by operating activities	245,126	334,996
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land Improvements, Buildings, and Equipment	-	(135,001)
Disposal of Land Improvements, Buildings, and Equipment	-	-
Net cash provided (used) by investing activities	-	(135,001)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	-	-
Net cash provided (used) by financing activities	-	-
Net increase (decrease) in cash and cash equivalents	245,126	199,995
Cash and cash equivalents, beginning of year	1,648,262	1,448,267
Cash and cash equivalents, end of year	\$ 1,893,388	\$ 1,648,262
Interest paid during the period ended August 31, 2021 and 2020	\$ -	\$ -
Income taxes paid during the period ended August 31, 2021 and 2020	None	None

The accompanying notes are an integral part of these financial statements.

**Required
Supplementary
Information Required by
Texas Education Agency**

**TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

	Totals	
	2021	2020
Expenses		
6100 Payroll Costs	\$ 2,735,432	\$ 2,617,548
6200 Professional and Contracted Services	313,724	325,393
6300 Supplies and Materials	188,726	250,961
6400 Other Operating Costs	202,253	195,844
6500 Debt	-	-
Total Expenses	\$ 3,440,135	\$ 3,389,746

The accompanying notes are an integral part of these statements

**TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2021**

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ 81,385	\$ 110,315	\$ -
1520 Buildings and Improvements	759,104	3,119,569	-
1539 Furniture and Equipment	15,301	161,448	-
1570 Less Accumulated Depreciation	(584,536)	(1,414,996)	-
Total Property and Equipment	<u>\$ 271,254</u>	<u>\$ 1,976,336</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2021

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 34,300	\$ 50,927	\$ 19,286	\$ (31,641)
5750 Cocurricular, Enterprising Activities	-	-	-	-
Total Local Support	34,300	50,927	19,286	(31,641)
State Program Revenues:				
5810 Foundation School Program Act Revenues	3,450,922	3,540,763	3,431,026	(109,737)
5820 State Program Revenues Distributed by TEA	-	92,843	1,382	(91,461)
Total State Program Revenues	3,450,922	3,633,606	3,432,408	(201,198)
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	60,937	62,605	62,605	-
5930 Federal Revenues Distributed by Other State Agencies	-	-	16,627	16,627
	60,937	62,605	79,232	16,627
Total Revenues	\$ 3,546,159	\$ 3,747,138	\$ 3,530,926	\$ (216,212)
EXPENSES				
11 Instruction	\$ 2,514,638	\$ 2,592,455	\$ 2,508,573	\$ 83,882
13 Curriculum and Instructional Staff Development	1,875	1,875	1,785	90
21 Instructional Leadership	6,377	6,377	6,346	31
23 School Leadership	173,853	230,037	230,036	1
31 Guidance, Counseling, and Evaluation Services	30,607	30,646	31,318	(672)
33 Health Services	1,175	1,799	1,799	-
35 Food Services	350	914	914	-
41 General Administration	210,557	214,681	215,083	(402)
51 Plant Maintenance and Operations	336,941	381,941	308,353	73,588
53 Data Processing Services	124,730	141,357	135,928	5,429
81 Fundraising	-	-	-	-
Total Expenses	\$ 3,401,103	\$ 3,602,082	\$ 3,440,135	\$ 161,947
Other Losses				
Extraordinary Items-Flood	-	-	(467,919)	(467,919)
Insurance Proceeds	-	-	330,576	330,576
	-	-	(137,343)	(137,343)
Change in Net Assets	145,056	145,056	(46,552)	(191,608)
Net Assets, Beginning of Year	4,028,043	4,028,043	4,028,043	-
Net Assets, End of Year	\$ 4,173,099	\$ 4,173,099	\$ 3,981,491	\$ (191,608)

The accompanying notes are an integral part of these financial statements.

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
STATE COMPENSATORY EDUCATION AND BILINGUAL EDUCATION
PROGRAM EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2021

Section A. Compensatory Education Programs

AP1	Did your LEA expend any state compensatory education program state allotment funds during the schools' fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the schools' fiscal year.	\$146,894
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year.	\$ 91,517

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.	\$3,854
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year.	\$17,317

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**Compliance
and
Internal Control**

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FREEMON, SHAPARD & STORY

Certified Public Accountants

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Mid-Cities Learning Center, Inc.
12500 S. Pipeline
Euless, TX 76040

Members of the Board of Directors:

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 Mid-Cities Learning Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mid-Cities Learning Center, 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 Mid-Cities Learning Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Mid-Cities Learning Center 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 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 Mid-Cities Learning Center, 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 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 matter 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.

Respectfully submitted,



Freemon, Shapard, & Story
Windthorst, TX
November 1, 2021

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2021

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weakness identified? ☐ Yes ☒ No

Significant deficiencies identified that are not considered
to be material weaknesses? ☐ Yes ☒ No

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Not Applicable – Under the guidelines of OMB Uniform Guidance, a Single Audit was not required for the year ended August 31, 2021.

II. Financial Statement Findings

None identified

III. Findings and Questioned Costs for State and Federal Awards

None identified

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2021

N/A No prior audit findings.