MID-CITIES LEARNING CENTER, INC.
CHARTER HOLDER

ANNUAL FINANCIAL AND COMPLIANCE REPORT

FOR THE YEAR ENDED
AUGUST 31, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

MID-CITIES LEARNING CENTER, INC.
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2019

TABLE OF CONTENTS

MID-CITIES LEARNING CENTER, INC.
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2019

MID-CITIES LEARNING CENTER, INC.

CERTIFICATE OF BOARD

AUGUST 31, 2019

Mid-Cities Learning Center, Inc.	Tarrant	220801
Name of Charter Holder	County	Co.-Dist. Number
Federal EIN: 75-1336797		

We, the undersigned, certify that the attached Financial and Compliance Report of the above-named charter holder was reviewed and (check one) __X____ approved _____ disapproved for the year ended August 31, 2019, at a meeting of the governing body of the charter holder on the 20th day of November, 2019.

[redacted]
Signature of Board Secretary

[redacted]
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)

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2019 and 2018, 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

2088 Zihlman Road • Windthorst, Texas 76389 • Office: (940) 423-6226 • Fax: (940) 423-6326

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, 2019 and 2018, 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, and Budgetary Comparison Schedule are presented for purposes of additional analysis as required by the Texas Education Agency and are not a required part of the basic 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 October 31, 2019, 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,

Freemon, Shapard & Story

Freemon, Shapard, & Story
Windthorst, TX
October 31, 2019

2088 Zihlman Road • Windthorst, Texas 76389 • Office: (940) 423-6226 • Fax: (940) 423-6326

General-Purpose Financial Statements

THIS PAGE LEFT BLANK INTENTIONALLY

Exhibit A-1

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,448,267	$ 1,489,813
Due from TEA	208,368	158,268
Other receivables	-	433
Total Current Assets	1,656,635	1,648,514
Property and Equipment		
Land and improvements	191,700	191,700
Buildings and improvements	3,753,759	3,574,641
Furniture and equipment	166,662	166,662
Less accumulated depreciation	(1,687,251)	(1,535,248)
Total Property and Equipment	2,424,870	2,397,755
Total Assets	$ 4,081,505	$ 4,046,269
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 3,681	$ -
Accrued wages payable	150,967	188,425
Accrued expenses	12,312	15,544
Vacation benefits payable	27,055	25,708
Due to student groups	13,483	17,211
Total Current Liabilities	207,498	246,888
Total Liabilities	$ 207,498	$ 246,888
Net Assets		
Without donor restrictions	374,321	393,417
With donor restrictions	3,499,686	3,405,964
Total Net Assets	$ 3,874,007	$ 3,799,381
Total Liabilities and Net Assets	$ 4,081,505	$ 4,046,269

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

Exhibit A-2

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2019
REVENUES			
Local Support:			
Contributions	$ 7,944	$ 20,000	$ 27,944
Interest Income	10,926	-	10,926
Cocurricular & Enterprising Services	5,017	-	5,017
Other Revenues	13,641	-	13,641
Total Local Support	37,528	20,000	57,528
State Program Revenues:			
Foundation School Program	-	3,028,901	3,028,901
State Program Revenues	-	60,451	60,451
Total State Program Revenues	-	3,089,352	3,089,352
Federal Program Revenues:			
IDEA Part B, Formula	-	51,711	51,711
IDEA Part B, Preschool	-	550	550
ESEA Title II, Part A-Teacher & Principal Training	-	5,189	5,189
Total Federal Program Revenues	-	57,450	57,450
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	3,073,080	(3,073,080)	-
Total Revenues	$ 3,110,608	$ 93,722	$ 3,204,330
EXPENSES			
Program Services:			
Instruction & Instructional-Related Services	$ 2,339,088	$ -	$ 2,339,088
Instructional & School Leadership	120,630	-	120,630
Support Services:			
Student Support Services	30,909	-	30,909
Administrative Support Services	193,869	-	193,869
Support Services - Non-Student Based	442,256	-	442,256
Fundraising	2,952	-	2,952
Total Expenses	$ 3,129,704	$ -	$ 3,129,704
Change in Net Assets	(19,096)	93,722	74,626
Net Assets, Beginning of Year	393,417	3,405,964	3,799,381
Net Assets, End of Year	$ 374,321	$ 3,499,686	$ 3,874,007

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

Exhibit A-2

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2018
REVENUES			
Local Support:			
Contributions	$ 7,554	$ -	$ 7,554
Interest Income	5,446	-	5,446
Cocurricular & Enterprising Services	26,395	-	26,395
Other Revenues	3,318	-	3,318
Total Local Support	42,713	-	42,713
State Program Revenues:			
Foundation School Program	-	2,862,934	2,862,934
State Instructional Materials	-	2,615	2,615
Total State Program Revenues	-	2,865,549	2,865,549
Federal Program Revenues:			
IDEA Part B, Formula	-	58,151	58,151
IDEA Part B, Preschool	-	500	500
ESEA Title II, Part A-Teacher & Principal Training	-	3,619	3,619
Total Federal Program Revenues	-	62,270	62,270
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	2,928,904	(2,928,904)	-
Total Revenues	$ 2,971,617	$ (1,085)	$ 2,970,532
EXPENSES			
Program Services:			
Instruction & Instructional-Related Services	$ 2,180,526	$ -	$ 2,180,526
Instructional & School Leadership	146,528	-	146,528
Support Services:			
Student Support Services	28,869	-	28,869
Administrative Support Services	186,800	-	186,800
Support Services - Non-Student Based	432,992	-	432,992
Fundraising	17,585	-	17,585
Total Expenses	$ 2,993,300	$ -	$ 2,993,300
Change in Net Assets	(21,683)	(1,085)	(22,768)
Net Assets, Beginning of Year	415,100	3,407,049	3,822,149
Net Assets, End of Year	$ 393,417	$ 3,405,964	$ 3,799,381

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, 2019 AND 2018

	Program Services	Management and General	2019 Total
Expenses			
Salaries and Wages	$ 2,009,375	$ 108,107	$ 2,117,482
Benefits	157,468	7,660	165,128
Payroll Taxes	153,036	7,771	160,807
Total Payroll Expenses	2,319,879	123,538	2,443,417
Professional Services	12,677	21,626	34,303
Education Service Center Services	27,635	6,800	34,435
Repairs and Maintenance	122,460	-	122,460
Utilities	63,762	3,356	67,118
Rentals	46,241	5,567	51,808
Maintenance Supplies	-	44,461	44,461
Textbooks	5,274	-	5,274
Food Service	3,729	-	3,729
General Supplies	121,738	774	122,512
Travel	-	2,975	2,975
Insurance	10,078	1,120	11,198
Miscellanous	-	34,011	34,011
Total Non-Payroll Expenses	413,594	120,690	534,284
Total Before Depreciation	2,733,473	244,228	2,977,701
Depreciation	149,925	2,078	152,003
Total Expenses	$ 2,883,398	$ 246,306	$ 3,129,704

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, 2019 AND 2018

	Program Services	Management and General	2018 Total
Expenses			
Salaries and Wages	$ 2,004,826	$ 74,298	$ 2,079,124
Benefits	132,636	3,844	136,480
Payroll Taxes	170,116	5,543	175,659
Total Payroll Expenses	2,307,578	83,685	2,391,263
Professional Services	14,955	24,326	39,281
Education Service Center Services	23,118	6,712	29,830
Repairs and Maintenance	115,359	-	115,359
Utilities	67,873	3,572	71,445
Rentals	44,510	7,593	52,103
Maintenance Supplies	-	46,153	46,153
Textbooks	918	-	918
Testing Materials	117	-	117
Food Service	17,880	-	17,880
General Supplies	37,359	1,296	38,655
Travel	-	1,047	1,047
Insurance	8,676	964	9,640
Miscellanous	-	54,656	54,656
Total Non-Payroll Expenses	330,765	146,319	477,084
Total Before Depreciation	2,638,343	230,004	2,868,347
Depreciation	122,863	2,090	124,953
Total Expenses	$ 2,761,206	$ 232,094	$ 2,993,300

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

Exhibit A-4

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 74,626	$ (22,768)
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	152,003	124,953
(Increase) Decrease in due from TEA	(50,100)	27,306
(Increase) Decrease in other receivables	433	(433)
Increase (Decrease) in accounts payable	3,681	-
Increase (Decrease) in accrued wages payable	(37,458)	13,292
Increase (Decrease) in accrued expenses	(3,232)	1,356
Increase (Decrease) in due to student groups	(3,728)	2,230
Increase (Decrease) in vacation benefits payable	1,347	(1,421)
Net cash provided (used) by operating activities	137,572	144,515
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land Improvements, Buildings, and Equipment	(179,118)	(379,136)
Disposal of Land Improvements, Buildings, and Equipment	-	-
Net cash provided (used) by investing activities	(179,118)	(379,136)
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	(41,546)	(234,621)
Cash and cash equivalents, beginning of year	1,489,813	1,724,434
Cash and cash equivalents, end of year	$ 1,448,267	$ 1,489,813

Interest paid during the period ended August 31, 2019 and 2018	$ -	$ -
Income taxes paid during the period ended August 31, 2019 and 2018	None	None

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, 2019

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 five 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.

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, 2019

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 47 days of accumulated personal leave at 8/31/19.

J. *New Accounting Pronouncements/Accounting Changes*

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. The ASU generally should be applied retrospectively to all prior periods presented. In prior reports, the organization presented the classification of net assets as unrestricted, temporarily restricted, and permanently restricted. The new guidance requires two categories of net assets: with donor restrictions and without donor restrictions. In addition, the new guidance requires the organization to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

2. CASH DEPOSITS

The corporation's funds were deposited and invested with Plains Capital Bank during the year ended August 31, 2019 and 2018. 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, 2019, 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 $1,448,267, and the bank balance was $1,487,392. The charter holder's cash deposits at August 31, 2019, and during the year ended August 31, 2019, were adequately covered by FDIC insurance or by pledged collateral held by the corporation's agent bank in the corporation's name.

At August 31, 2018, 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 $1,489,813, and the bank balance was $1,576,988. The charter holder's cash deposits at August 31, 2018, and during the year ended August 31, 2018, were adequately covered by FDIC insurance or 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 $2,006,792.

c. The highest combined balances of cash, savings, and time deposit accounts amounted to $1,657,550 and occurred during the month of July 2019.

d. Total amount of FDIC coverage at the time of the largest combined balance was $250,000.

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) and is 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 Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; 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 2018 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2018.

Components of Net Position Liability	Total
Total Pension Liability	$209,611,328,793
Less: Plan Fiduciary Net Position	(154,568,901,833)
Net Pension Liability	$ 55,042,426,960
Net Position as Percentage of Total Pension Liability	73.74%

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 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.

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. 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same. Contribution rates can be found in the TRS 2018 CAFR, Note 11 on page 76.

Contribution Rates		
	2019	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Charter Holder's Employer Contributions	$ 6,048	$ 4,741
Charter Holder's Member Contributions	$163,380	$159,178
Measurement Year	2018	2017
Charter Holder's NECE On-Behalf Contributions	$ 133,261	$ 130,680

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). 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 are two additional surcharges 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 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.

E. *Actuarial Assumptions*

The total pension liability in the August 31, 2017, actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions: Actuarial assumptions can be found in the 2018 TRS CAFR, Note 11, page 77.

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-Term Expected Rate	7.25%
Municipal Bond Rate	3.69%*
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad hoc Post Employment Benefit Changes	None

**Source: Fixed Income 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, 2018.*

The actuarial methods and assumptions are based primarily on a study of actual experience for the three year period ending August 31, 2017 and adopted in July 2018.

F. *Discount Rate*

The discount rate used to measure the total pension liability was 6.907%. The discount rate can be found in the 2018 TRS CAFR on page 78. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan 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 pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. 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 arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 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%	5.7%	1.0%
Non-U.S. Developed	13%	6.9%	0.9%
Emerging Markets	9%	8.9%	0.8%
Directional Hedge Funds	4%	3.5%	0.1%
Private Equity	13%	10.2%	1.3%
Stable Value			
U.S. Treasuries	11%	1.1%	0.1%
Absolute Return	0%	-	-
Hedge Funds (Stable Value)	4%	3.1%	0.1%
Cash	1%	-0.3%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.7%	0.0%
Real Assets	14%	5.2%	0.7%
Energy and Natural Resources	5%	7.5%	0.4%
Commodities	0%	-	-
Risk Parity			
Risk Parity	5%	3.7%	0.2%
Inflation Expectation			2.3%
Volatility Drag***			-0.8%
Total	100%		7.2%

* *Target allocations are based on the FY2016 policy model.*
** *Capital market assumptions come from Aon Hewitt (2017 Q4)*
*** *The volatility drag results from the conversion between arithmetic and geometric mean returns.*

G. *Discount Rate Sensitivity Analysis*

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the Net Pension Liability. The discount rate can be found in the 2018 TRS CAFR, Note 11, page 78.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
Mid-Cities Learning Center, Inc.'s proportionate share of the net pension liability	$116,912	$ 77,464	$ 45,529

H. *Pension Liabilities*

At August 31, 2019, Mid-Cities Learning Center, Inc. reported a liability of $77,464 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	$ 77,464
State's proportionate share that is associated with the charter school	2,178,725
Total	$2,256,189

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2017 rolled forward to August 31, 2018. 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, 2017 through August 31, 2018.

At August 31, 2018, the employer's proportion of the collective net pension liability was .0001407348% which was an increase from its proportion of .0001064863% measured as of August 31, 2017.

I. *Changes Since the Prior Actuarial Valuation*

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The Total Pension Liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.

- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0 percent to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the Net Pension Liability.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

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 that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

B. *OPEB Plan Fiduciary Net Position*

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; 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, 2018 are as follows:

Net OPEB Liability	Total
Total OPEB Liability	$ 50,729,490,103
Less: Plan Fiduciary Net Position	(798,574,633)
Net OPEB liability	$ 49,930,915,470
Net Position as a Percentage of Total OPEB Liability	1.57%

C. *Benefits Provided*

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers, and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. 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. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage.

TRS-Care Monthly for Retirees		
	Medicare	Non-Medicare
January 1, 2018 thru December 31, 2018		
Retiree*	$ 135	$200
Retiree and Spouse	$ 529	$689
Retiree* and Children	$ 468	$408
Retiree and Family	$1,020	$999

* *or surviving spouse*

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 .75% 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. 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				
	2018		2019	
Active Employee	0.65%		0.65%	
State	1.25%		1.25%	
Employers	0.75%		0.75%	
Federal/Private Funding	1.25%		1.25%	
2019 Employer Contributions		$ 15,914		
2019 Member Contributions		$ 13,792		
2018 NECE On-Behalf Contributions		$ 25,216		

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS-Care OPEB program). When employers hire a TRS retiree, they are required to pay to TRS-Care, a monthly surcharge of $535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of $182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional $212 million in one-time, supplemental funding for the FY 2018-19 biennium to continue to support the program. This was also received in FY2018 bringing the total appropriations received in fiscal year 2018 to $394.6 million.

E. *Actuarial Assumptions*

The total OPEB liability in the August 31, 2017 was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions: *Actuarial assumptions can be found in the 2018 TRS CAFR, Note 9, page 71.*

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in this OPEB valuation were identical to those used in the respective TRS valuation.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation that was rolled forward to August 31, 2018:

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.69%*
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	3.05% - 9.05%, including inflation
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65.
Ad-hoc Post Employment Benefit Changes	None

**Source: Fixed Income 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, 2018.*

F. *Discount Rate*

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .27 percent in the discount rate since the previous year. The Discount Rate can be found in the 2018 TRS CAFR on page 71. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2018.

G. *Sensitivity of the Net OPEB Liability*

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.69%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
School's proportionate share of the Net OPEB Liability:	$1,390,721	$1,168,336	$992,415

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

H. *Healthcare Cost Trend Rates Sensitivity Analysis*

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

	1% Decrease in Healthcare Trend Rate (7.5%)	Current Single Healthcare Trend Rate (8.5%)	1% Increase in Healthcare Trend Rate (9.5%)
School's proportionate share of the Net OPEB Liability:	$970,322	$1,168,336	$1,429,125

I. *OPEB Liabilities and OPEB Expense*

At August 31, 2019, Mid-Cities Learning Center, Inc. disclosed a liability of $1,168,336 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	$1,168,336
State's proportionate share that is associated with the School	1,827,695
Total	$ 2,996,031

The Net OPEB Liability was measured as of August 31, 2017 and rolled forward to August 31, 2018, 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, 2017 thru August 31, 2018. At August 31, 2018, the employer's proportion of the collective Net OPEB Liability was 0.002339905% compared to 0.0021640654% at August 31, 2017.

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 CAFR on page 71.*

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the Total OPEB Liability.
- The health care rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. The change increased the Total OPEB Liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. The change increased the Total OPEB Liability.

- The discount rate was changed from 3.42 percent as of August 31, 2017 to 3.69 percent as of August 31, 2018. This changed lowered the Total OPEB Liability $2.3 billion.
- Change of Benefit Terms Since the Prior Measurement Date – Please see the 2018 TRS CAFR, page 68, section B for a list of changes made effective September 1, 2017 by the 85th Texas Legislature.

5. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2019 and 2018, the corporation's liability for accrued sick leave or vacation leave was $27,055 and $25,708.

6. HEATH CARE COVERAGE

During the year ended August 31, 2019 and 2018, employees of the charter school were covered by a health insurance plan (the Plan). The charter school contributed $450 per month in 2018-19 and $400 per month in 2017-18 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, 2018, the charter school earned revenue of $3,089,352 from the Texas Education Agency (TEA). This constitutes approximately 96.41% 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, 2019 and 2018, were as follows:

	Balance 8/31/2018	Additions	Deletions	Balance 8/31/2019
Land & Improvements	$ 191,700	$ -	$ -	$ 191,700
Buildings & Improvements	3,574,641	179,118	-	3,753,759
Furniture & Equipment	166,662	-	-	166,662
Accumulated Depreciation	(1,535,248)	(152,003)	-	(1,687,251)
Property & Equipment, Net	$ 2,397,755	$ 27,115	$ -	$ 2,424,870

	Balance 8/31/2017	Additions	Deletions	Balance 8/31/2018
Land	$ 191,700	$ -	$ -	$ 191,700
Buildings & Improvements	3,210,805	363,836	-	3,574,641
Furniture & Equipment	151,362	15,300	-	166,662
Accumulated Depreciation	(1,410,295)	(124,953)	-	(1,535,248)
Property & Equipment, Net	$ 2,143,572	$ 254,183	$ -	$ 2,397,755

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, 2019 and 2018, consisted of the following:

	2019	2018
Foundation School Program	$ 3,484,700	$ 3,397,349
State Instructional Materials Fund	-	978
Sid Richardson	7,329	-
Campus Activity	7,657	7,637
Total Net Assets With Donor Restrictions	$ 3,499,686	$ 3,405,964

11. LEASES

A copier lease agreement was entered into with Everbank Commercial Finance for $544 a month for 36 months beginning January 29, 2015, which expired January 29, 2018. A new copier lease agreement was entered into with Everbank Commercial Finance for $535 a month for 36 months beginning March 6, 2018.

A lease agreement was entered into De Lage Landen Financial Services for student chromebooks for $10,970 a quarter for 3 years beginning June 20, 2017.

Future minimum payments under noncancelable operating leases as of August 31, 2019, are as follows:

2020	$ 50,469
2021	4,392
	$ 54,861

Rent expense was $51,808 and $52,103 for the years ended August 31, 2019 and 2018, respectively.

12. RELATED PARTY TRANSACTIONS

Mid-Cities Learning Center, Inc. paid Mike Cox, husband of the Executive Director of Mid-Cities Learning Center, Inc., $46,953 for repairs and maintenance on school projects such as gutter work, electrical, concrete work, replacing windows, etc. Mid-Cities Learning Center, Inc. went out for bids for all these projects, but Mike Cox was able to complete these services at a much lower price.

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, 2019, 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.

15. RESTRICTED ASSETS

$20,000 was contributed to Mid-Cities Learning Center, Inc. from the Sid W. Richardson Foundation that was restricted for a sculpture studio and supplies for middle and high school students. For the year ended August 31, 2019, $12,671 of these funds were spent on allowable costs. At August 31, 2019, $7,329 of cash is still restricted for the sculpture studio and supplies.

16. 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	$ 69,913
Fixed assets	304,408
	$374,321

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, $846,635 of cash is invested in certificates of deposit.

Specific-Purpose Financial Statements

THIS PAGE LEFT BLANK INTENTIONALLY

Exhibit B-1

TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2019 and 2018

		2019		2018
ASSETS				
Current Assets				
Cash and cash equivalents	$	1,448,267	$	1,489,813
Due from TEA		208,368		158,268
Other receivables		-		433
Total Current Assets		1,656,635		1,648,514
Property and Equipment				
Land and improvements		191,700		191,700
Buildings and improvements		3,753,759		3,574,641
Furniture and equipment		166,662		166,662
Less accumulated depreciation		(1,687,251)		(1,535,248)
Total Property and Equipment		2,424,870		2,397,755
Total Assets	$	4,081,505	$	4,046,269
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	$	3,681	$	-
Accrued wages payable		150,967		188,425
Accrued expenses		12,312		15,544
Vacation benefits payable		27,055		25,708
Due to student groups		13,483		17,211
Total Current Liabilities		207,498		246,888
Total Liabilities	$	207,498	$	246,888
Net Assets				
Without donor restrictions		374,321		393,417
With donor restrictions		3,499,686		3,405,964
Total Net Assets	$	3,874,007	$	3,799,381
Total Liabilities and Net Assets	$	4,081,505	$	4,046,269

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

Exhibit B-2

TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	Without Donor Restrictions	With Donor Restrictions	2019 Totals
Revenues			
Local Support:			
5740 Other Revenues from Local Sources	$ 32,512	$ 20,000	$ 52,512
5750 Cocurricular, Enterprising Activities	5,016	-	5,016
Total Local Support	37,528	20,000	57,528
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	3,028,901	3,028,901
5820 State Program Revenues Distributed by TEA	-	60,451	60,451
Total State Program Revenues	-	3,089,352	3,089,352
Federal Program Revenues:			
5920 Federal Revenues Distributed by TEA	-	57,450	57,450
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	3,073,080	(3,073,080)	-
Total Revenues	$ 3,110,608	$ 93,722	$ 3,204,330
Expenses			
11 Instruction	$ 2,337,038	$ -	$ 2,337,038
13 Curriculum and Instructional Staff Development	2,050	-	2,050
21 Instructional Leadership	2,211	-	2,211
23 School Leadership	118,420	-	118,420
31 Guidance, Counseling, and Evaluation Services	29,488	-	29,488
33 Health Services	644	-	644
35 Food Services	777	-	777
41 General Administration	193,869	-	193,869
51 Plant Maintenance and Operations	327,267	-	327,267
53 Data Processing Services	114,988	-	114,988
81 Fundraising	2,952	-	2,952
Total Expenses	$ 3,129,704	$ -	$ 3,129,704
Change in Net Assets	(19,096)	93,722	74,626
Net Assets, Beginning of Year	393,417	3,405,964	3,799,381
Net Assets, End of Year	$ 374,321	$ 3,499,686	$ 3,874,007

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, 2019 AND 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Totals
Revenues			
Local Support:			
5740 Other Revenues from Local Sources	$ 16,318	$ -	$ 16,318
5750 Cocurricular, Enterprising Activities	26,395	-	26,395
Total Local Support	42,713	-	42,713
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	2,862,934	2,862,934
5820 State Program Revenues Distributed by TEA	-	2,615	2,615
Total State Program Revenues	-	2,865,549	2,865,549
Federal Program Revenues:			
5920 Federal Revenues Distributed by TEA	-	62,270	62,270
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	2,928,904	(2,928,904)	-
Total Revenues	$ 2,971,617	$ (1,085)	$ 2,970,532
Expenses			
11 Instruction	$ 2,179,419	$ -	$ 2,179,419
13 Curriculum and Instructional Staff Development	1,107	-	1,107
21 Instructional Leadership	1,896	-	1,896
23 School Leadership	144,632	-	144,632
31 Guidance, Counseling, and Evaluation Services	27,798	-	27,798
33 Health Services	776	-	776
35 Food Services	295	-	295
41 General Administration	186,800	-	186,800
51 Plant Maintenance and Operations	295,834	-	295,834
53 Data Processing Services	137,158	-	137,158
81 Fundraising	17,585	-	17,585
Total Expenses	$ 2,993,300	$ -	$ 2,993,300
Change in Net Assets	(21,683)	(1,085)	(22,768)
Net Assets, Beginning of Year	415,100	3,407,049	3,822,149
Net Assets, End of Year	$ 393,417	$ 3,405,964	$ 3,799,381

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 74,626	$ (22,768)
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	152,003	124,953
(Increase) Decrease in due from TEA	(50,100)	27,306
Increase (Decrease) in other receivables	433	(433)
Increase (Decrease) in accounts payable	3,681	-
Increase (Decrease) in accrued wages payable	(37,458)	13,292
Increase (Decrease) in accrued expenses	(3,232)	1,356
Increase (Decrease) in due to student groups	(3,728)	2,230
Increase (Decrease) in vacation benefits payable	1,347	(1,421)
Net cash provided (used) by operating activities	137,572	144,515
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land Improvements, Buildings, and Equipment	(179,118)	(379,136)
Disposal of Land Improvements, Buildings, and Equipment	-	-
Net cash provided (used) by investing activities	(179,118)	(379,136)
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	(41,546)	(234,621)
Cash and cash equivalents, beginning of year	1,489,813	1,724,434
Cash and cash equivalents, end of year	$ 1,448,267	$ 1,489,813

Interest paid during the period ended August 31, 2019 and 2018	$ -	$ -
Income taxes paid during the period ended August 31, 2019 and 2018	None	None

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

Required Supplementary Information

TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	Totals	
	2019	2018
Expenses		
6100 Payroll Costs	$ 2,443,418	$ 2,391,263
6200 Professional and Contracted Services	310,123	308,018
6300 Supplies and Materials	175,976	103,723
6400 Other Operating Costs	200,187	190,296
6500 Debt	-	-
Total Expenses	$ 3,129,704	$ 2,993,300

The accompanying notes are an integral part of these statements

Exhibit D-1

TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2019

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	$ 81,385	$ 110,315	$ -
1520 Buildings and Improvements	759,104	2,994,655	-
1539 Furniture and Equipment	15,300	151,362	-
1570 Less Accumulated Depreciation	(551,382)	(1,135,869)	-
Total Property and Equipment	$ 304,407	$ 2,120,463	$ -

The accompanying notes are an integral part of these statements.

Exhibit E-1

TREETOPS SCHOOL INTERNATIONAL CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2019

	Budgeted Amounts		Actual	Variance from Final
	Original	Final	Amounts	Budget
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	$ 18,600	$ 18,600	$ 52,512	$ 33,912
5750 Cocurricular, Enterprising Activities	25,000	25,000	5,016	(19,984)
Total Local Support	43,600	43,600	57,528	13,928
State Program Revenues:				
5810 Foundation School Program Act Revenues	2,950,908	3,085,446	3,028,901	(56,545)
5820 State Program Revenues Distributed by TEA	74,994	74,994	60,451	(14,543)
Total State Program Revenues	3,025,902	3,160,440	3,089,352	(71,088)
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	55,557	57,290	57,450	160
Total Revenues	$ 3,125,059	$ 3,261,330	$ 3,204,330	$ (57,000)
EXPENSES				
11 Instruction	$ 2,329,550	$ 2,331,283	$ 2,337,038	$ (5,755)
13 Curriculum and Instructional Staff Development	1,300	2,050	2,050	-
21 Instructional Leadership	1,953	2,213	2,211	2
23 School Leadership	128,040	128,040	118,420	9,620
31 Guidance, Counseling, and Evaluation Services	28,961	29,261	29,488	(227)
33 Health Services	780	644	644	-
35 Food Services	300	800	777	23
41 General Administration	171,385	176,685	193,869	(17,184)
51 Plant Maintenance and Operations	312,111	424,019	327,267	96,752
53 Data Processing Services	146,335	146,335	114,988	31,347
81 Fundraising	20,000	20,000	2,952	17,048
Total Expenses	$ 3,140,715	$ 3,261,330	$ 3,129,704	$ 131,626
Change in Net Assets	(15,656)	-	74,626	74,626
Net Assets, Beginning of Year	3,799,381	3,799,381	3,799,381	-
Net Assets, End of Year	$ 3,783,725	$ 3,799,381	$ 3,874,007	$ 74,626

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

Compliance
and
Internal Control

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2019, 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 October 31, 2019.

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) 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 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.

2088 Zihlman Road • Windthorst, Texas 76389 • Office: (940) 423-6226 • Fax: (940) 423-6326

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

Freemon, Shapard, & Story
Windthorst, TX
October 31, 2019

2088 Zihlman Road • Windthorst, Texas 76389 • Office: (940) 423-6226 • Fax: (940) 423-6326

MID-CITIES LEARNING CENTER, INC. (THE CHARTER HOLDER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified?	___ Yes _X_ No
Significant deficiencies identified that are not considered to be material weaknesses?	___ Yes _X_ No
Noncompliance material to financial statements noted?	___ Yes _X_ No

Federal Awards

Not Applicable – Under the guidelines of OMB Circular A-133, a Single Audit was not required for the year ended August 31, 2019.

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, 2019

N/A No prior audit findings.

FREEMON, SHAPARD & STORY

Certified Public Accountants

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 31, 2019

The Board of Directors
The Executive Director
Management
Mid-Cities Learning Center, Inc.
12500 S. Pipeline
Euless, Texas 76040

We have audited the financial statements of Mid-Cities Learning Center, Inc. for the year ended August 31, 2019, and we will issue our report thereon dated October 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 22, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mid-Cities Learning Center, Inc. are described in Note 1 to the financial statements. As described in Note 1, Mid-Cities Learning Center, Inc. adopted FASB's ASU No. 2016-14 during the year ended August 31, 2019. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

2088 Zihlman Road • Windthorst, Texas 76389 • Office: (940) 423-6226 • Fax: (940) 423-6326

Management's estimates are based on historical experience for allowances and time of usefulness for depreciation. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year in the normal course of our professional relationship. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

2088 Zihlman Road • Windthorst, Texas 76389 • Office: (940) 423-6226 • Fax: (940) 423-6326

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Board of Directors and management of Mid-Cities Learning Center, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Freemon, Shapard + Story

Freemon, Shapard, & Story

2088 Zihlman Road • Windthorst, Texas 76389 • Office: (940) 423-6226 • Fax: (940) 423-6326