

Financial Report of

**MIDLAND ACADEMY CHARTER
SCHOOL, INC.**

Midland, Texas

Year Ended August 31, 2020

MIDLAND ACADEMY CHARTER SCHOOL, INC.
 Annual Financial Report
 Year Ended August 31, 2020

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CERTIFICATE OF THE BOARD

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Name of School

MIDLAND
County

165-802
County -
District
Number

We, the undersigned, certify that the attached Annual Financial and Compliance report of Midland Academy Charter School, Inc. was reviewed and X approved disapproved for the year ended August 31, 2020, at a meeting of the Board of Trustees of the Charter Holder on the ^(Check One) 26 day of January, 2021.

Beverly Drummond
Signature of Board Secretary

Bobby L Smith
Signature of Board President

If the Board of Trustees disapproved the annual financial report, the reason(s) for disapproving it is (are) (attach list as necessary):

CERTIFICATE OF THE BOARD

MIDLAND ACADEMY CHARTER SCHOOL, INC.

Name of School

MIDLAND

County

165-802

County -
District
Number

We, the undersigned, certify that the attached Annual Financial and Compliance report of Midland Academy Charter School, Inc. was reviewed and X approved disapproved for the year ended August 31, 2020, at a meeting of the Board of Trustees of the Charter Holder on the _____ day of _____, 20____.

(Check One)

Signature of Board Secretary

Signature of Board President

If the Board of Trustees disapproved the annual financial report, the reason(s) for disapproving it is (are) (attach list as necessary):

FINANCIAL SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA
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Members of
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Texas Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Midland Academy Charter School, Inc.
500 North Baird Street
Midland, TX 79701

Report on the Financial Statements

We have audited the accompanying financial statements of Midland Academy Charter School, Inc. (the School) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midland Academy Charter School, Inc., as of August 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial as a whole. The accompanying supplementary information, such as the schedule of expenses, schedule of capital assets, and the budgetary comparison schedule as required by the Texas Education Agency, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2021, on our consideration of Midland Academy Charter School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Midland Academy Charter School, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Midland Academy Charter School, Inc.'s internal control over financial reporting and compliance.

Eckert & Company, LLP

January 8, 2021

Financial Statements

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Statement of Financial Position
August 31, 2020

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 3,532,876
Due from State	<u>308,715</u>
 Total Current Assets	 \$ 3,841,591

PROPERTY AND EQUIPMENT, NET

1,576,153

TOTAL ASSETS

\$ 5,417,744

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 10,941
Accrued Liabilities	226,194
Due to State	43,701
Refundable Advance	518,800
Current Portion of TEA Claims Settlement	<u>15,671</u>
 Total Current Liabilities	 \$ 815,307

TEA CLAIMS SETTLEMENT

130,258

Total Liabilities

\$ 945,565

NET ASSETS

Without Donor Restrictions	\$ 44,667
With Donor Restrictions	<u>4,427,512</u>
 Total Net Assets	 <u>\$ 4,472,179</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 5,417,744

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

MIDLAND ACADEMY CHARTER SCHOOL, INC.

Statement of Activities

Year Ended August 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<u>REVENUES</u>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 34	\$ 23,391	\$ 23,425
5750 Revenues from Cocurricular, Enterprising Services, or Activities	4,682	40,597	45,279
Total Local Support	<u>\$ 4,716</u>	<u>\$ 63,988</u>	<u>\$ 68,704</u>
State Program Revenues:			
5810 Per Capita and Foundation School Program Act Revenues	\$ 0	\$ 3,323,185	\$ 3,323,185
5820 State Program Revenues Distributed by Texas Education Agency	0	9,348	9,348
Total State Program Revenues	<u>\$ 0</u>	<u>\$ 3,332,533</u>	<u>\$ 3,332,533</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency	\$ 0	\$ 270,334	\$ 270,334
Total Federal Program Revenues	<u>\$ 0</u>	<u>\$ 270,334</u>	<u>\$ 270,334</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	\$ 3,727,033	\$ (3,727,033)	\$ 0
Total Revenues	<u>\$ 3,731,749</u>	<u>\$ (60,178)</u>	<u>\$ 3,671,571</u>
<u>EXPENSES</u>			
Program Services:			
11 Instruction	\$ 2,158,600	\$ 0	\$ 2,158,600
12 Instructional Resources and Media Services	29,637	0	29,637
13 Curriculum and Instructional Staff Development	32,337	0	32,337
21 Instructional Leadership	92,867	0	92,867
23 School Leadership	222,798	0	222,798
31 Guidance, Counseling, and Evaluation Services	71,576	0	71,576
33 Health Services	65,759	0	65,759
34 Student (Pupil) Transportation	169	0	169
35 Food Services	186,311	0	186,311
36 Cocurricular/Extracurricular Activities	482	0	482
Support Services:			
41 General Administration	299,365	0	299,365
51 Plant Maintenance and Operations	468,703	0	468,703
53 Data Processing Services	92,191	0	92,191
71 Debt Service	9,166	0	9,166
Total Expenses	<u>\$ 3,729,961</u>	<u>\$ 0</u>	<u>\$ 3,729,961</u>
Change in Net Assets	\$ 1,788	\$ (60,178)	\$ (58,390)
Net Assets - Beginning of Year	42,879	4,485,960	4,528,839
Prior Period Adjustment	<u>0</u>	<u>1,730</u>	<u>1,730</u>
Net Assets - End of Year	<u>\$ 44,667</u>	<u>\$ 4,427,512</u>	<u>\$ 4,472,179</u>

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

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Statement of Functional Expenses
Year Ended August 31, 2020

	<u>Program Activities</u> Educational Services	<u>Supporting Activities</u> General and Administrative	<u>Total</u>
<u>EXPENSES</u>			
Salaries and Wages	\$ 2,309,781	\$ 207,384	\$ 2,517,165
Benefits	213,967	17,798	231,765
Payroll Taxes	<u>32,869</u>	<u>3,000</u>	<u>35,869</u>
Total Payroll Expenses	<u>\$ 2,556,617</u>	<u>\$ 228,182</u>	<u>\$ 2,784,799</u>
Professional Services	\$ 0	\$ 28,386	\$ 28,386
Staff Tuition	6,933	125	7,058
Education Service Center Services	19,642	128,025	147,667
Repairs and Maintenance	169	99,818	99,987
Utilities	0	84,113	84,113
Rentals	25,783	2,865	28,648
Contracted Services	31,853	40,596	72,449
Maintenance and Supplies	1,433	23,002	24,435
Textbooks	4,785	440	5,225
Food Service	117,543	0	117,543
General Supplies	88,982	19,414	108,396
Travel	2,689	918	3,607
Insurance	0	65,642	65,642
Miscellaneous	<u>4,107</u>	<u>17,487</u>	<u>21,594</u>
Total Non-Payroll Expenses	<u>\$ 303,919</u>	<u>\$ 510,831</u>	<u>\$ 814,750</u>
Debt Expenses			
Interest	<u>\$ 0</u>	<u>\$ 9,166</u>	<u>\$ 9,166</u>
Depreciation	<u>\$ 0</u>	<u>\$ 121,246</u>	<u>\$ 121,246</u>
Total Expenses	<u>\$ 2,860,536</u>	<u>\$ 869,425</u>	<u>\$ 3,729,961</u>

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

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Statement of Cash Flows
Year Ended August 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Per Capita and Foundation School State Programs	\$ 3,413,086
Cash Received from Federal Programs	281,957
Cash Received from Local Sources	68,704
Cash Received from Other State Programs	9,348
Payments to Vendors for Goods and Services Rendered	(823,477)
Payments to School Personnel for Services Rendered	(2,721,934)
Interest Payments	<u>(9,234)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 218,450</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investments	<u>\$ (16,659)</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ (16,659)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Refundable Advance	\$ 518,800
Payment of TEA Claims Settlement	<u>(14,760)</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ 504,040</u>
Net Increase in Cash and Cash Equivalents	\$ 705,831
Cash and Cash Equivalents - Beginning	<u>2,033,981</u>
Cash and Cash Equivalents - Ending	\$ 2,739,812
Temporary Investments Not in Cash Equivalents	<u>793,064</u>
Cash and Cash Equivalents on Statement of Financial Position	<u><u>\$ 3,532,876</u></u>

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Statement of Cash Flows - Continued
Year Ended August 31, 2020

RECONCILIATION OF CHANGE IN NET ASSETS TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Change in Net Assets	<u>\$ (58,390)</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities	
Depreciation and Amortization	\$ 121,246
Changes in Assets and Liabilities	
(Increase) Decrease in Due from State	57,820
Increase (Decrease) in Due to State	43,701
Increase (Decrease) in Accounts Payable	(8,715)
Increase (Decrease) in Accrued Liabilities	<u>62,788</u>
Total Adjustments	<u>\$ 276,840</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 218,450</u></u>

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

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements
August 31, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of Midland Academy Charter School, Inc., were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

A. Reporting Entity

The School is a Texas nonprofit corporation located in Midland, Texas. The School is a charter school for pre-kindergarten through grade eight which operates under an open enrollment Charter granted by the State of Texas Board of Education. The School is operated as a single charter school and does not conduct any other charter or non-charter activities. The School's charter extends through July 31, 2023.

The School is governed by the Board of Trustees, a four-member group, which is selected pursuant to the bylaws of the School and has the authority to make decisions, appoint the chief executive officer of the School, and significantly influence operations. The Board of Trustees has the primary accountability for the fiscal affairs of the School. Since the School received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

B. 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 and nature or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

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

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed 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.

C. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

D. Contributions

The School 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.

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Revenue and Support

Revenues from the State of Texas are earned based on reported school attendance. Amounts received from the State before they are earned are deferred. Public and private grants received are recognized in the period received and when the terms of the grants are met.

F. Cash and Cash Equivalents

The School considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

G. Accounts Receivable

The School's accounts receivable represents amounts primarily due from the State of Texas or state and federal funding related to grants.

H. Capital Assets

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

I. Income Taxes

The School is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and, therefore, has made no provision for federal income taxes in the accompanying financial statements.

J Uncertain Tax Positions

The Financial Accounting Standards Board requires the School to recognize in its financial statements the financial effects of a tax position taken or expected to be taken in a tax return, if that position is more likely than not to be sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. Tax position taken related to the School's tax-exempt status, unrelated business income and deductibility of expenses has been reviewed and management is of the opinion that material positions taken by the School would more likely than not be sustained upon examination. Accordingly, the School has not recorded an income tax liability for uncertain tax benefits. As of August 31, 2020, the School's tax years 2017 and thereafter remain subject to examination.

K. Functional Expenses

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

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

II. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Capital Assets

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

Land	\$ 20,000
Buildings and Improvements	2,598,756
Vehicles	138,785
Furniture and Equipment	340,404
Assets Purchased with Capital Leases	<u>235,244</u>
Total Capital Assets	\$ 3,333,189
Less Accumulated Depreciation and Amortization	<u>1,757,036</u>
Property and Equipment, Net	<u>\$ 1,576,153</u>

Capital assets acquired with public funds received by the School for the operation of the School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the schedule of capital assets for the School.

Depreciation expense was \$121,246 for the year ended August 31, 2020.

B. Concentration of Credit Risk and Business Risk

In the normal course of operations, the School maintains cash balances on deposit at financial institutions which, at times, may exceed federally insured limits. The School's exposure to loss, should the financial institution fail, is the excess of funds on deposit over the insured amount covered by the Federal Deposit Insurance Corporation. The School has not experienced any losses on such accounts, and management believes that this credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held. During the fiscal year, the financial institution pledged securities to mitigate any exposure to loss that could occur.

Approximately 90% of the School's total revenue for the year ended August 31, 2020, was provided by State funding for the Per Capita and Foundation School Program.

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

II. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

C. Operating Lease

The School leases certain office equipment under a noncancelable operating lease agreement expiring in 2021. Commitments under this operating lease agreement provide for minimum future rental payments as of August 31, 2020, as follows:

<u>Year Ending</u> <u>August 31,</u>	
2021	<u>\$ 16,500</u>

Operating lease expense for the year ended August 31, 2020, was \$19,800.

D. Refundable Advance

In May 2020, the School entered into an unsecured loan sponsored by the United States Small Business Administration (SBA) in the amount of \$518,800 with a financial institution pursuant to the Paycheck Protection Program (PPP). The loan may be forgiven in whole, or in part, dependent on the Organization's compliance with certain criteria defined in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Proceeds from the loan may only be used for permissible costs, as stipulated in the School's loan application.

The PPP loan may be forgiven partially, or in full, if the School meets certain eligibility requirements. In order to obtain forgiveness of the PPP loan, in whole or in part, the School must request forgiveness and provide satisfactory documentation in accordance with applicable SBA guidelines.

The School has recorded the full amount of the PPP loan as a Refundable Advance as of August 31, 2020, and intends to reflect the benefit of any loan forgiveness when the loan forgiveness application is submitted to and approved by the SBA and it has reasonable assurance from the SBA that it has met the eligibility and loan forgiveness requirements of the PPP.

An application has been submitted to the SBA for loan forgiveness in the amount of \$486,190. Any amounts not forgiven will bear interest at 1% and will be due within 2 years. At the time of this report, loan forgiveness determination has not been made by the SBA.

E. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended August 31, 2020:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
TEA Claims Settlement	<u>\$ 160,689</u>	<u>\$ 0</u>	<u>\$ 14,760</u>	<u>\$ 145,929</u>	<u>\$ 15,671</u>

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

II. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

E. Long-Term Debt - Continued

The School's outstanding Texas Education Agency claims settlement is as follows:

Texas Education Agency Audit Resolution and Liability

On November 1, 2005, auditors from the Division of Financial Audits from the Texas Education Agency (TEA) began an audit of the School for the time period July 1, 1999 through July 21, 2001, based upon Section 12.1163 of the Texas Education Code. The purpose of the audit was to ascertain the location, completeness, and maintenance of any and all accounting, contractual, financial, payroll, and personnel records created and maintained by the School for the period July 1, 1999 through July 21, 2001.

On January 12, 2007, the TEA issued a final report on an audit of the Financial Records Maintained by Midland Academy Charter School, Inc. This report questioned \$522,569 in costs charged to federal awards during the 1999-2000 and 2000-2001 school years and determined that there was substantial doubt about the School's ability to continue as a going concern for a reasonable period of time. Midland Academy Charter School, Inc., requested an informal review by the TEA to provide the School an opportunity to provide new and relevant information pertinent to a final determination of the appropriate administrative action that the TEA should take. The informal review process was completed in April 2007, at which time the TEA denied all appeals. The final determination of costs to be refunded to the TEA was in the amount of \$522,569.

Effective July 1, 2007, the School was required to refund to the TEA \$2,000 per month beginning February 1, 2010, plus interest accruing at 6% per annum; however, the School began repayment of approximately \$6,000 per month in September 2009. In December 2009, the TEA waived all interest due to the TEA based on the School's good faith effort in refunding the disallowed costs. At that date, the outstanding amount was discounted back to the present using the 6% discounted rate for the future stream of \$2,000 payments due. In April 2011 the School reduced its monthly payment to the TEA to approximately \$2,000 which was the original agreed upon payment.

\$ 145,929

Imputed interest expense for the TEA claims settlement was \$9,166 for the year ended August 31, 2020.

The annual debt service requirements are as follows

Year Ending August 31,	TEA Claims Settlement		Total
	Principal	Interest	
2021	\$ 15,671	\$ 8,329	\$ 24,000
2022	16,637	7,363	24,000
2023	17,663	6,337	24,000
2024	18,753	5,247	24,000
2025	19,909	4,091	24,000
2026-2028	57,296	4,704	62,000
Totals	<u>\$ 145,929</u>	<u>\$ 36,071</u>	<u>\$ 182,000</u>

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

II. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

F. Net Assets With Donor Restrictions

Net assets with donor restrictions at August 31, 2020, consisted of the following:

National School Lunch Program	\$	5,092
State Textbook Fund		1,376
Foundation School Program		<u>4,421,044</u>
Total		<u>\$ 4,427,512</u>

III. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description - Midland Academy Charter School, 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, Section 67 and Texas Government Code, Title 8, Subtitle C. The Pension Trust Fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution.

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

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 <http://www.trs.texas.gov>; by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling (512)542-6592.

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 benefits are established or amended under the authority of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the Texas Government Code, Title 8, Subtitle C. The Board of Trustees does not have the authority to establish or amend benefits. State law requires the plan to be actuarially sound in order for the Legislature to consider a benefit enhancement, such as supplemental payment to the retirees. 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. These increases immediately made the pension fund actuarially sound and the Legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018, received an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever was less.

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

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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 through 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. Senate Bill 12 in the 86th Legislature set higher contribution rates for fiscal year 2020 and fiscal year 2021. Beginning September 1, 2019, all employers are required to pay the Public Education Employer contribution of 1.5%. This "surcharge" was previously only charged to employers not participating in social security.

	Contribution Rates	
	<u>2019</u>	<u>2020</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	7.5%
Employers	6.8%	7.5%
School's 2020 Employer Contributions		\$ 71,401
School's 2020 Member Contributions		175,622
School's 2019 NECE On-Behalf Contributions		334,508

The School's contributions to the plan did not represent more than 5% of total plan contributions from all entities for the Plan year ended August 31, 2020.

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, or non-educational, 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.
- Employers must contribute 1.5% of the member's salary ("the Public Education Employer Surcharge").

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Actuarial Assumptions -

Roll Forward - A change was made in the measurement date of the total pension liability for the 2019 measurement year. The actuarial valuation was performed as of August 31, 2018. Update procedures were used to roll forward the total pension liability to August 31, 2019.

The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the Plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2018, and were adopted in July 2018.

The active mortality rates were based on 90% of the RP 2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables.

The following table discloses the assumptions that were applied to this measurement period:

Valuation Date	August 31, 2018 Rolled Forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-Term Expected Rate	7.25%
Municipal Bond Rate as of August 2019	2.63%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index.
Last Year Ending August 31 in Projection Period (100 Years)	2116
Inflation	2.30%
Salary Increases	3.05% to 9.05% Including Inflation
Ad hoc Postemployment Benefit Changes	None

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions please see the TRS actuarial valuation report dated November 9, 2018.

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Discount Rate - The single discount rate used to measure the total pension liability was 7.25%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from active members, employers, and the non-employer contributing entity will be made at the statutorily required rates set by the Legislature during the 2019 legislative session. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

<u>Asset Class</u>	<u>FY 2019 Target Allocation¹</u>	<u>New Target Allocation²</u>	<u>Long-Term Expected Geometric Real Rate of Return³</u>
Global Equity			
USA	18.00%	18.00%	6.40%
Non-U.S. Developed	13.00%	13.00%	6.30%
Emerging Markets	9.00%	9.00%	7.30%
Directional Hedge Funds	4.00%	0.00%	0.00%
Private Equity	13.00%	14.00%	8.40%
Stable Value			
U.S. Treasuries ⁴	11.00%	16.00%	3.10%
Stable Value Hedge Funds	4.00%	5.00%	4.50%
Absolute Return (Including Credit Sensitive Investments)	0.00%	0.00%	0.00%
Real Return			
Global Inflation-Linked Bonds ⁴	3.00%	0.00%	0.00%
Real Estate	14.00%	15.00%	8.50%
Energy, Natural Resources, and Infrastructure	5.00%	6.00%	7.30%
Commodities	0.00%	0.00%	0.00%
Risk Parity			
Risk Parity	5.00%	8.00%	5.8/6.5% ⁵
Asset Allocation Leverage Cash	1.00%	2.00%	2.50%
Asset Allocation Leverage	0.00%	-6.00%	2.70%
Expected Return		7.23%	

¹ FY 2019 Target Allocation based on the Strategic Asset Allocation dated October 1, 2018.

² New Target Allocation based on the Strategic Asset Allocation dated October 1, 2019.

³ 10-year annualized geometric nominal returns include the real rate of return and inflation of 2.1%.

⁴ New Target Allocation groups Government Bonds within the Stable Value Allocation. This includes global sovereign nominal and inflation-linked bonds.

⁵ 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility.

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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 (7.25%) in measuring the 2019 net pension liability:

	<u>1% Decrease in Discount Rate (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase in Discount Rate (8.25%)</u>
School's Proportionate Share of the Net Pension Liability	<u>\$ 993,581</u>	<u>\$ 646,380</u>	<u>\$ 365,081</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At August 31, 2020, the Midland Academy Charter School, Inc., disclosed a net pension liability of \$646,380 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the School. The amount recognized by the School 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 the School were as follows:

School's Proportionate Share of the Collective Net Pension Liability	\$ 646,380
State's Proportionate Share that is Associated with the School	<u>2,129,457</u>
Total	<u>\$ 2,775,837</u>

The net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2018 rolled forward to August 31, 2019. 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, 2018 through August 31, 2019.

At August 31, 2019, the employer's proportion of the collective net pension liability was 0.0012434429% which was a decrease of 0.0001216937% from its proportion measured as of August 31, 2018.

Changes Since the Prior Actuarial Valuation - Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- The total pension liability as of August 31, 2019, was developed using a roll-forward method from the August 31, 2018 valuation.
- The single discount rate as of August 31, 2018, was a blended rate of 6.907%, and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
- With the enactment of Senate Bill 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

B. Defined Other Postemployment Benefit Plans

Plan Description - The Midland Academy Charter School, Inc., participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined other postemployment 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.

OPEB Plan Fiduciary Net Position - Detailed 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.texas.gov>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided - TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers, and other educational districts who are members of the TRS pension plan. Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. 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 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.

The General Appropriations Act passed by the 86th Legislature included funding to maintain TRS-Care premiums at their current level through 2021. The 86th Legislature also passed Senate Bill 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures.

The premium rates for retirees are presented 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

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 participating employers based on active employee compensation. The TRS Board of Trustees does not have the authority to set or amend contribution rates.

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of salary. Section 1575.204 establishes a public school contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act which is 0.75% of each active employee's pay for fiscal year 2019. The following table shows contributions to the TRS-Care plan by type of contributor:

Contribution Rates		
	<u>2019</u>	<u>2020</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
School's 2020 Employer Contributions		\$ 18,603
School's 2020 Member Contributions		14,826
School's 2019 NECE On-Behalf Contributions		43,885

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 \$73.6 million in fiscal year 2019.

Actuarial Assumptions - The total OPEB liability in the August 31, 2018 actuarial valuation was rolled forward to August 31, 2019. The actuarial valuation was determined using the following actuarial assumptions.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 TRS pension actuarial valuation that was rolled forward to August 31, 2019:

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

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2018 Rolled Forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.63% as of August 31, 2019
Aging Factors	Based on Plan Specific Experience
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
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% to 9.05% Including Inflation
Ad hoc Postemployment Benefit Changes	None

The impact of the Cadillac Tax that is returning in fiscal year 2023 has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.3%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25-basis point addition to the long-term trend rate assumption.

Discount Rate - A single discount rate of 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06% in the discount rate since the previous year. 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.

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

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 (2.63%) in measuring the net OPEB liability:

	<u>1% Decrease in Discount Rate (1.63%)</u>	<u>Discount Rate (2.63%)</u>	<u>1% Increase in Discount Rate (3.63%)</u>
School's Proportionate Share of the Net OPEB Liability	<u>\$ 1,512,902</u>	<u>\$ 1,253,107</u>	<u>\$ 1,049,869</u>

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 1% lower or 1% higher than the assumed healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
School's Proportionate Share of the Net OPEB Liability	<u>\$ 1,022,240</u>	<u>\$ 1,253,107</u>	<u>\$ 1,562,361</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs - At August 31, 2020, the Midland Academy Charter School, Inc., disclosed a liability of \$1,253,107 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 the School were as follows:

School's Proportionate Share of the Collective Net OPEB Liability	\$ 1,253,107
State's Proportionate Share that is Associated with the School	<u>1,665,098</u>
Total	<u>\$ 2,918,205</u>

The net OPEB liability was measured as of August 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018 through August 31, 2019.

At August 31, 2019, the employer's proportion of the collective net OPEB liability was 0.0026497655% which was a decrease of 0.0001479155% from its proportion measured as of August 31, 2018.

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

Changes in Actuarial Assumptions 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:

- The discount rate changed from 3.69% as August 31, 2018, to 2.63% as of August 31, 2019. This change increased the total OPEB liability.
- The trend rates were reset to better reflect the plan's anticipated experience. This change increased the total OPEB liability.
- The participation rate for pre-65 retirees was lowered from 70% to 65%. The participation rate for post-65 retirees was lowered from 75% to 50%. 25% of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the total OPEB liability.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20% to 15%. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20% to 10%. These changes decreased the total OPEB liability.

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

C. Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2020, August 31, 2019, and August 31, 2018, the subsidy payments received by TRS-Care on behalf of the School were \$10,352, \$9,082, and \$7,228, respectively. These payments are recorded as equal revenues and expenditures in the governmental fund's financial statements.

D. Health Care Coverage

The School participates in TRS-Active Care sponsored by the Teacher Retirement System of Texas. TRS-Active Care (the Plan) provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the Plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The Plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

E. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2020, the School purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to the Financial Statements - Continued
August 31, 2020

III. OTHER INFORMATION - Continued

F. Commitment and Contingencies

The School received 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 TEA 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 School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, the School's funds may be subject to refund if so determined by the TEA or the grantor agency. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

G. 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	<u>\$ 45,254</u>
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Except for the financial assets listed above, the School's cash and due from State, are restricted by the TEA, federal agencies, and donors for charter school operations.

H. State Aid

Charter schools in the State of Texas participate in the Per Capita and State Foundation Program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period and at the close of the year. Actual attendance is calculated by the TEA, and the attendance reports are subject to audit by the TEA. Final Per Capita and State Foundation Program earnings may be adjusted as a result of any such audit. During the year ended August 31, 2020, the Charter Holder earned \$3,323,185 of Per Capita and State Foundation Program funds (before any possible TEA enrollment and attendance audit).

I. Charter Holder Operations

The Charter Holder only operated a single charter school and did not conduct any other charter or noncharter activities.

J. Adjustments to Net Assets

The financial statements reflect the following prior period adjustment:

Prior Year's Foundation Adjustment	<u>\$ 1,730</u>
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K. Subsequent Events

The School's management has evaluated subsequent events through January 8, 2021, the date which the financial statements were available for issue.

Supplementary Information

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Schedule of Expenses
Year Ended August 31, 2020

<u>EXPENSES</u>		<u>Total All Funds</u>
6100	Payroll Costs	\$ 2,784,799
6200	Professional and Contracted Services	468,307
6300	Supplies and Materials	255,600
6400	Other Operating Costs	212,089
6500	Debt Service	9,166
	Total Expenses	<u>\$ 3,729,961</u>

MIDLAND ACADEMY CHARTER SCHOOL, INC.
 Schedule of Capital Assets
 August 31, 2020

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ 0	\$ 20,000	\$ 0
1520 Buildings and Improvements	0	2,598,756	0
1531 Vehicles	0	138,785	0
1539 Furniture and Equipment	0	238,045	102,359
1550 Assets Purchases with Capital Leases	0	210,368	24,876
	<u>0</u>	<u>210,368</u>	<u>127,235</u>
Total Property and Equipment	<u>\$ 0</u>	<u>\$ 3,205,954</u>	<u>\$ 127,235</u>

MIDLAND ACADEMY CHARTER SCHOOL, INC.
 Budgetary Comparison Schedule
 Year Ended August 31, 2020

Exhibit D-1

	Budget Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>REVENUES</u>				
Local Support:				
5740 Other Revenue from Local Sources	\$ 2,790	\$ 5,190	\$ 23,425	\$ 18,235
5750 Revenues from Cocurricular, Enterprising Services, or Activities	57,000	57,000	45,279	(11,721)
Total Local Support Revenues	<u>\$ 59,790</u>	<u>\$ 62,190</u>	<u>\$ 68,704</u>	<u>\$ 6,514</u>
State Program Revenues:				
5810 Per Capita and Foundation School Program Act Revenues	\$ 3,690,973	\$ 3,381,159	\$ 3,323,185	\$ (57,974)
5820 State Program Revenues Distributed by Texas Education Agency	1,200	42,113	9,348	(32,765)
Total State Program Revenues	<u>\$ 3,692,173</u>	<u>\$ 3,423,272</u>	<u>\$ 3,332,533</u>	<u>\$ (90,739)</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	\$ 356,126	\$ 420,728	\$ 270,334	\$ (150,394)
5940 Federal Revenues Distributed by United States Small Business Administration (SBA)	0	518,800	0	(518,800)
Total Federal Program Revenues	<u>\$ 356,126</u>	<u>\$ 939,528</u>	<u>\$ 270,334</u>	<u>\$ (669,194)</u>
Total Revenues	<u>\$ 4,108,089</u>	<u>\$ 4,424,990</u>	<u>\$ 3,671,571</u>	<u>\$ (753,419)</u>
<u>EXPENSES</u>				
11 Instruction	\$ 2,292,542	\$ 2,704,173	\$ 2,158,600	\$ 545,573
12 Instructional Resources and Media Services	34,468	36,230	29,637	6,593
13 Curriculum and Instructional Staff Development	90,700	48,350	32,337	16,013
21 Instructional Leadership	85,397	88,304	92,867	(4,563)
23 School Leadership	270,337	241,889	222,798	19,091
31 Guidance, Counseling, and Evaluation Services	72,867	74,957	71,576	3,381
33 Health Services	60,750	66,481	65,759	722
34 Student (Pupil) Transportation	4,700	300	169	131
35 Food Services	227,544	220,240	186,311	33,929
36 Cocurricular/Extracurricular Activities	1,250	1,250	482	768
41 General Administration	339,385	338,114	299,365	38,749
51 Plant Maintenance and Operations	482,649	532,202	468,703	63,499

MIDLAND ACADEMY CHARTER SCHOOL, INC.
 Budgetary Comparison Schedule - Continued
 Year Ended August 31, 2020

	Budget Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>EXPENSES - Continued</u>				
53 Data Processing Services	121,500	97,500	92,191	5,309
71 Debt Service	24,000	24,000	9,166	14,834
Total Expenses	<u>\$ 4,108,089</u>	<u>\$ 4,473,990</u>	<u>\$ 3,729,961</u>	<u>\$ 744,029</u>
Changes in Net Assets	\$ 0	\$ (49,000)	\$ (58,390)	\$ (9,390)
Net Assets - Beginning of Year	4,528,839	4,528,839	4,528,839	0
Prior Period Adjustment	<u>0</u>	<u>0</u>	<u>1,730</u>	<u>1,730</u>
Net Assets - End of Year	<u>\$ 4,528,839</u>	<u>\$ 4,479,839</u>	<u>\$ 4,472,179</u>	<u>\$ (7,660)</u>

MIDLAND ACADEMY CHARTER SCHOOL, INC.
Notes to Budgetary Comparison Schedule
As of August 31, 2020

1. The following are explanations for variances between the initial budget and final budget of 10% or more as required by the Texas Education Agency:

Object 5740 - Actual interest on investments was not posted to the books on a regular basis in part due to the absence of Business Office personnel.

Object 5820 – Increased budget to reflect additional State aid for computers and personal protective equipment due to the novel Coronavirus.

Object 5920 – Increased budget to reflect increased allotments in Federal funds.

Function 11 – Increase in budget due to anticipation of the Payroll Protection Program loan.

Function 13 - Reduction in budget due to contracted services being less than anticipated due to COVID shut down.

Function 23 - Reduction in budget due to expected change in school leadership.

Function 34 - Reduction in budget due cancellation of extracurricular activities.

Function 51 - Increase in budget due to several unscheduled repairs.

2. The following are explanations for variances between the final budget and actual revenues/expenses of 10% or more as required by the Texas Education Agency:

Object 5740 - Actual interest on investments was not posted to the books on a regular basis in part due to the absence of Business Office personnel.

Object 5750 – Loss of revenues generated by Cafeteria due to COVID shut down.

Object 5820 – Additional State aid due to the novel coronavirus was less than anticipated.

Object 5920 – Grant funds not expended as anticipated due to COVID shut down.

Object 5940 – Due to lack of early guidance regarding the Paycheck Protection Program, it was originally anticipated to be reported as a grant.

Function 11 – Over projection of budget due to anticipation of Paycheck Protection Program loan.

Function 12, 13, 34, 35,36 – Decrease in expenses due to COVID shutdown.

Function 41 – Decrease due to change in personnel.

Function 51 – Variance due to over projection of unscheduled repair costs.

COMPLIANCE AND INTERNAL CONTROLS SECTION

Eckert & Company
CERTIFIED PUBLIC ACCOUNTANTS

A Limited Liability Partnership

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

Board of Trustees
Midland Academy Charter School, Inc.
500 North Baird Street
Midland, TX 79701

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 Midland Academy Charter School, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2020, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 8, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School'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 the 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 Midland Academy Charter School, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eckert & Company, LLP

January 8, 2021

MIDLAND ACADEMY CHARTER SCHOOL, INC.
 Schedule of Findings and Questioned Costs
 Year Ended August 31, 2020

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unmodified

Internal Control Over Financial Reporting

Material weaknesses identified?

___ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses?

___ Yes X None Reported

Noncompliance material to financial statements noted?

___ Yes X No

B. Findings - Financial Statements Audit

None

C. Findings - State Compliance

None