

**Midland Independent School District**

Annual Financial Report

For the Fiscal Year Ended August 31, 2017

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**Midland Independent School District**  
 Annual Financial Report  
 For the Fiscal Year Ended August 31, 2017  
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**CERTIFICATE OF BOARD**

Midland Independent School District	Midland	165-901
Name of School District	County	County - District Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  approved  disapproved for the fiscal year ended August 31, 2017 at a meeting of the Board of Trustees of such school district on the 16th day of January, 2018.

James Fuller  
Signature of Board Secretary

Rick Davis  
Signature of Board President

If the board of trustees disapproves of the auditors' report, the reason(s) for disapproving it is/are: (attach list if necessary)

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# Financial Section

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## Independent Auditor's Report

The Board of Trustees of  
Midland Independent School District  
615 West Missouri  
Midland, Texas 79701

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Midland Independent School District (the District), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

The Board of Trustees of  
Midland Independent School District

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, , the discretely presented component unit, each major fund, and the aggregate remaining fund information of Midland Independent School District, as of August 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Midland Independent School District's basic financial statements. The Supplementary Information as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Board of Trustees of  
Midland Independent School District

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2018 on our consideration of Midland Independent School District'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 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 Independent School District's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Midland, Texas  
January 16, 2018

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## Management's Discussion and Analysis

As management of the Midland Independent School District (the District), we offer readers of the accompanying report this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2017. In reviewing this report, readers should be mindful that it is often necessary for management to make and use estimates in the preparation of financial statements. Examples of the use of such estimates may be found in amounts reported for depreciation, net taxes receivable, claims payable of the District's self-insured workers' compensation program, and net pension liability.

### Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at year-end by \$77,468,669 (net position). Of this amount, \$1,209,555 (unrestricted net position) is a deficit balance.
- The District's total net position decreased by \$8,717,963.
- At the end of the year, unassigned fund balance in the general fund was \$42,388,148 while total fund balance in the general fund was \$42,776,819, an increase of \$871,134.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information and supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector enterprise.

The *Statement of Net Position* (Exhibit A-1) presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as an indicator of how the financial position of the District is changing.

The *Statement of Activities* (Exhibit B-1) presents information showing how the District's net position changed during the year. Changes in net position are reported upon occurrence of the underlying event giving rise to the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some transactions that will not result in cash flows until future fiscal periods (e.g., uncollected taxes and incurred but unpaid workers' compensation benefits).

The government-wide financial operations (*governmental activities*) of the District are principally supported by taxes and intergovernmental revenues. The governmental activities of the District include *Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Service, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Issuance Costs and Fees, Facilities Repair and Maintenance, Contracted Instructional Services between Schools, Payments to Juvenile Justice Alternative Education Programs and Other Intergovernmental Charges.*

The government-wide financial statements can be found as noted in the table of contents of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, as do other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of cash resources*, as well as on *balances of cash resources* available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

Because the focus of governmental funds financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintained twenty individual governmental funds during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, National School Breakfast and Lunch Program, debt service fund, and capital projects fund, which are considered to be major funds. Data from the other sixteen governmental funds are combined into a single, aggregated presentation titled *total nonmajor funds*.

The District adopts an annual revenue and appropriations budget for its general fund. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements are noted in the table of contents of this report.

**Proprietary Funds.** The District reports the activities for which it charges users (other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities, full accrual. The internal service fund reports activities that provide services for the District's self-insurance program and employee housing fund.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of students and student organizations. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs and activities. A statement of fiduciary net position is the only financial statement presented for fiduciary funds, as noted in the table of contents of this report.

**Notes to the Basic Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements are noted in the table of contents of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report presents required supplementary information and supplementary information, including schedules required by the Texas Education Agency. Such information is noted in the table of contents of this report.

## Government-wide Financial Analysis

As mentioned earlier, net position may, over time, serve as an indicator of a District's changing financial position. At the close of the District's most recent fiscal year, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$77,468,669.

### Midland Independent School District's Net Position

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 59,401,564	16	\$ 67,159,519	17	\$ (7,757,955)	(12)
Capital assets, net of accumulated depreciation	312,731,902	84	320,132,200	83	(7,400,298)	(2)
Total assets	372,133,466	100	387,291,719	100	(15,158,253)	
Total deferred outflows of resources	22,788,568	100	27,081,064	100	(4,292,496)	(16)
Other liabilities	13,531,595	4	15,305,506	5	(1,773,911)	(12)
Long-term liabilities outstanding	296,162,614	96	308,699,488	95	(12,536,874)	(4)
Total liabilities	309,694,209	100	324,004,994	100	(14,310,785)	
Total deferred inflows of resources	7,759,156	100	4,181,157	100	3,577,999	86
Net position:						
Net investment in capital assets	73,869,878	95	76,403,516	89	(2,533,638)	(3)
Restricted	4,808,346	6	5,997,348	7	(1,189,002)	(20)
Unrestricted	(1,209,555)	(2)	3,785,768	4	(4,995,323)	(132)
<b>Total net position</b>	<b>\$ 77,468,669</b>	<b>99</b>	<b>\$ 86,186,632</b>	<b>100</b>	<b>\$ (8,717,963)</b>	

The excess of assets/deferred outflows of resources over liabilities/deferred inflows of resources reported on the government-wide Statement of Net Position of \$77,468,669 at August 31, 2017 results from several factors.

The largest portion of the District's net position is net investment in capital assets. Investment in capital assets (e.g., land and improvements, buildings and improvements, furniture and equipment and construction in progress), less any related debt used to acquire those assets is \$73,869,878, an decrease of \$2,533,638 from August 31, 2016. The District utilizes capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position that is restricted for debt service and grants totals \$4,808,346 or 6 percent of net position.

The remaining balance of net position, *unrestricted net position* \$1,209,555, is a deficit balance.

**Governmental Activities.** Governmental activities decreased the District's net position by \$8,717,963 from current operations. The elements giving rise to this change may be determined from the table below.

**Midland Independent School District's Changes in Net Position**

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	\$ 6,436,802	2	\$ 4,124,595	1	\$ 2,312,207	56
Operating grants and contributions	41,034,369	15	20,825,234	8	20,209,135	97
Capital grants and contributions	-	-	107,494	-	(107,494)	(100)
General revenues:						
Property taxes, levied for general purpose	192,120,690	71	203,910,534	74	(11,789,844)	(6)
Property taxes, levied for debt service	14,756,633	5	19,604,787	7	(4,848,154)	(25)
Grants and contributions not restricted to specific programs	14,375,721	5	23,249,755	8	(8,874,034)	(38)
Investment earnings	579,321	-	376,552	-	202,769	54
Miscellaneous	1,657,868	1	4,140,712	1	(2,482,844)	(60)
Total revenues	270,961,404	100	276,339,663	100	(5,378,259)	(2)
Expenses:						
Instruction	128,425,519	46	136,326,250	46	(7,900,731)	(6)
Instructional resources and media services	2,415,389	1	2,848,659	1	(433,270)	(15)
Curriculum and instructional staff development	6,507,647	2	7,758,833	3	(1,251,186)	(16)
Instructional leadership	3,639,042	1	3,928,579	1	(289,537)	(7)
School leadership	12,329,298	5	13,427,836	5	(1,098,538)	(8)
Guidance, counseling, and evaluation services	8,165,956	3	8,472,166	3	(306,210)	(4)
Social work services	265,257	-	349,969	-	(84,712)	(24)
Health services	2,131,590	1	2,320,889	1	(189,299)	(8)
Student transportation	7,037,593	3	8,064,366	3	(1,026,773)	(13)
Food service	12,679,274	5	13,362,819	4	(683,545)	(5)
Extracurricular activities	4,800,531	2	5,186,266	2	(385,735)	(7)
General administration	7,875,522	3	4,485,860	2	3,389,662	76
Plant maintenance and operations	18,480,798	7	23,281,118	8	(4,800,320)	(21)
Security and monitoring services	1,374,708	-	1,689,942	1	(315,234)	(19)
Data processing services	4,320,536	2	5,325,762	2	(1,005,226)	(19)
Community services	498,527	-	457,810	-	40,717	9
Interest on long-term debt	8,623,459	3	10,063,228	3	(1,439,769)	(14)
Issuance costs and fees	320,778	-	-	-	320,778	-
Facilities repair and maintenance	2,357,197	1	-	-	2,357,197	-
Contracted instructional services between schools	45,806,661	16	47,592,168	16	(1,785,507)	(4)
Payments related to shared services arrangement	156,500	-	-	-	156,500	-
Payments to juvenile justice alternative education programs	-	-	35,353	-	(35,353)	(100)
Other intergovernmental charges	1,467,585	1	2,081,583	1	(613,998)	(29)
Total expenses	279,679,367	100	297,059,456	100	(17,380,089)	(6)
Increase in net position before transfers	(8,717,963)		(20,719,793)		12,001,830	
Transfers	-		1,666,267		(1,666,267)	
Change in net position	(8,717,963)		(19,053,526)		10,335,563	
Net position - beginning	86,186,632		105,240,158		(19,053,526)	
Net position - ending	\$ 77,468,669		\$ 86,186,632		\$ (8,717,963)	



Revenues, aggregating \$270,961,404, were generated primarily from two sources. Property taxes totaling \$206,877,323 represent 76 percent of total revenues, while grants and contributions (including those not restricted for program-specific use as well as for general operations, totaling \$41,034,369, represent 15 percent of total revenues. The remaining 5 percent is generated from investment earnings, charges for services, county equalization and miscellaneous revenues.

The primary functional expenses of the District are instruction \$128,425,519, which represents 46 percent of total expenses, plant maintenance and operations \$18,480,798 which represents 7 percent of total expenses, contracted instructional services between public schools \$45,806,661 which represents 16 percent of total expenses, interest on long-term debt \$8,623,459 which represents 3 percent of total expenses, and facilities repair and maintenance \$2,357,197 which represents 1 percent of total expenses. The remaining functional expense categories are 4 percent or less of total expenses.

### **Financial Analysis of the Government's Funds**

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** At the end of the fiscal year, the District's governmental funds had combined ending fund balances of \$49,571,451, an decrease of \$1,534,021 from the preceding year. Comments as to each major individual fund's change in fund balance follows.

The general fund is the primary operating fund of the District. At year-end, unassigned fund balance of the general fund was \$42,388,148, while total fund balance was \$42,776,819. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 19 percent of total general fund expenditures, while total fund balance represents 19 percent of that same total. The fund balance of the general fund increased \$871,134 during the year, primarily due to an increase in state program and a decrease in expenditures for instruction.

The debt service fund ended the year with a total fund balance of \$2,577,310, all of which is reserved for the payment of principal and interest on debt. The debt service fund balance decreased by \$1,613,522 during the year primarily due to the increase in debt service requirements was offset by the increase in revenues from property taxes.

The capital projects fund ended the year with a total fund balance of \$1,082,313, all of which is reserved for capital acquisition program and contractual obligations. The capital projects fund balance decreased by \$2,298,250 primarily due to expenditures related to capital projects as outlined in the bond issue.

Governmental funds financial statements may be found by referring to the table of contents.

**General Fund Budgetary Highlights**

The significant differences between the original adopted budget and the final amended budget of the general fund were primarily from an increase in projected property tax revenues resulting from revised estimates of the certified taxable values.

The District's general fund budget differs significantly from actual primarily due to receiving less in local and intermediate revenues.

**Capital Assets and Long-term Liabilities**

**Capital Assets.** The District's investment in capital assets for its governmental activities as of August 31, 2017 was \$312,731,902 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment, and construction in progress. The decrease in total capital assets, net of accumulated depreciation, for the current fiscal year was \$7,400,298.

Major capital asset activity during the year included the following:

**Midland Independent School District's Capital Assets**  
(net of depreciation)

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 9,009,142	3	\$ 9,009,142	3	\$ -	-
Buildings and improvements	298,881,279	97	273,116,844	86	25,764,435	9
Furniture and equipment	3,798,602	1	4,786,723	1	(988,121)	(21)
Construction in progress	1,042,879	-	33,219,491	10	(32,176,612)	(97)
<b>Totals</b>	<b>\$ 312,731,902</b>	<b>101</b>	<b>\$ 320,132,200</b>	<b>100</b>	<b>\$ (7,400,298)</b>	

Additional information on the District's capital assets can be found in Note 3. D. of the notes to the financial statements as noted in the table of contents of this report.

**Construction Commitments.** At the end of the current fiscal year, the District's commitments with construction contractors, including purchase orders, totaled \$256,033.

**Noncurrent Liabilities.** At year-end, the District had the following long-term liabilities:

**Midland Independent School District's Long-term Liabilities Outstanding**

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	\$ 237,834,994	81	\$ 248,822,488	81	\$ (10,987,494)	(4)
Compensated absences	3,703,635	1	3,697,290	1	6,345	-
Net pension liability	54,623,985	18	56,179,710	18	(1,555,725)	(3)
<b>Totals</b>	<b>\$ 296,162,614</b>	<b>100</b>	<b>\$ 308,699,488</b>	<b>100</b>	<b>\$ (12,536,874)</b>	

The District's total long-term liabilities decreased by \$12,536,874. The key factor was the decrease in general obligation bonds resulting from the refunding of Series 2016 Building Bonds.

The District's general obligation debt is backed by the full faith and credit of the District and when eligible, is further guaranteed by the Texas Permanent School Fund Guarantee Program. State statutes do not limit the tax rate or amount of local tax support of school districts' bonded indebtedness. However, approval of the Attorney General of the State of Texas is required prior to the sale of bonds.

Additional information on the District's long-term debt can be found in Note 3. E. in the notes to the financial statements as noted in the table of contents of this report.

Additional information on the District's net pension liability can be found in Note 3. G. to the financial statements as indicated in the table of contents of this report.

**Economic Factors and Next Year's Budget and Rates**

The District's elected and appointed officials considered many factors when setting the fiscal year 2018 budget and tax rates. Factors included assessed property values, anticipated average daily student attendance and anticipated operating costs to the District.

Assessed values for the 2016-17 school year decreased by 5.5%. However, the values rebounded for the 2017-2018 school year with an increase of 13%. The increase was due to rising mineral values. The oil and gas industry continues to increase in activity. As a result, the population of Midland continues to grow annually. Officials anticipate this trend to continue over the next few years. Despite the anticipation of strong growth, the District projects a conservative 3% increase in local revenue due to the nature of the petroleum industry.

The state designates the District as Chapter 41 based on the equalization of wealth formula. In order to achieve structural balance in the 2017-2018 budget, the District reduced personnel expenditures through attrition. The District adopted a surplus budget of \$5.4 million for the 2018 fiscal year. The assumptions for the budget include an estimated 2% enrollment growth and a 3% increase in local revenue.

**Requests for Information**

This financial report is intended to provide a general overview of the District's finances for those with an interest in this information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent of Finance, Midland Independent School District, 615 West Missouri Midland, Texas 79701.

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# **Basic Financial Statements**

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**Midland Independent School District**  
**Statement of Net Position**  
**August 31, 2017**

**Exhibit A-1**

		1	
Data Control Codes		<u>Primary Government</u>	<u>Component Unit</u>
		<u>Governmental Activities</u>	<u>Component Unit</u>
<b>ASSETS</b>			
1110	Cash and cash equivalents	\$ 16,284,632	\$ 1,859,222
1120	Current investments	30,485,584	719,307
1220	Property taxes receivable	6,614,663	-
1230	Allowance for uncollectable taxes	(3,836,504)	-
1240	Due from other governments	7,555,240	-
1290	Other receivables	728,306	-
1300	Inventories	1,452,737	-
1410	Prepaid items	116,906	-
	Capital assets:		
1510	Land and improvements	9,009,142	-
1520	Buildings and improvements (net)	298,881,279	-
1530	Furniture and equipment (net)	3,798,602	-
1580	Construction in progress	1,042,879	-
1000	Total assets	<u>372,133,466</u>	<u>2,578,529</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
1705	Deferred outflows - pension	20,899,260	-
1710	Deferred charge on refunding	1,889,308	-
1700	Total deferred outflows of resources	<u>22,788,568</u>	<u>-</u>
<b>LIABILITIES</b>			
2110	Accounts payable	2,961,044	-
2140	Interest payable	903,973	-
2150	Payroll deductions and withholdings	192,853	-
2160	Accrued wages payable	5,138,138	-
2180	Due to other governments	324,066	-
2200	Accrued liabilities	3,784,572	-
2300	Unearned revenue	226,949	-
	Noncurrent liabilities:		
2501	Due within one year	8,785,169	-
2502	Due in more than one year	232,753,460	-
2540	Net pension liabilities	54,623,985	-
2000	Total liabilities	<u>309,694,209</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2605	Deferred inflows - pension	5,453,318	-
2610	Deferred gain on refunding	2,305,838	-
2600	Total deferred inflows of resources	<u>7,759,156</u>	<u>-</u>
<b>NET POSITION</b>			
3200	Net investment in capital assets	73,869,878	-
3820	Restricted for grants	3,135,009	-
3850	Restricted for debt service	1,673,337	-
3890	Restricted for other purposes	-	2,578,529
3900	Unrestricted	(1,209,555)	-
3000	<b>TOTAL NET POSITION</b>	<u>\$ 77,468,669</u>	<u>\$ 2,578,529</u>

The Notes to the Financial Statements are an integral part of this statement.

**Midland Independent School District**  
**Statement of Activities**  
**For the Fiscal Year Ended August 31, 2017**

1

Data Control Codes	Functions/Programs	Expenses
	<b>PRIMARY GOVERNMENT</b>	
	Governmental activities:	
0011	Instruction	\$ 128,425,519
0012	Intructional resources and media services	2,415,389
0013	Curriculum and instructional staff development	6,507,647
0021	Instructional leadership	3,639,042
0023	School leadership	12,329,298
0031	Guidance, counseling, & evaluation services	8,165,956
0032	Social work services	265,257
0033	Health services	2,131,590
0034	Student transportation	7,037,593
0035	Food service	12,679,274
0036	Extracurricular activities	4,800,531
0041	General administration	7,875,522
0051	Plant maintenance and operations	18,480,798
0052	Security and monitoring services	1,374,708
0053	Data processing services	4,320,536
0061	Community services	498,527
0072	Interest on long-term debt	8,623,459
0073	Issuance costs and fees	320,778
0081	Facilities repair and maintenance	2,357,197
0091	Contracted instructional services between schools	45,806,661
0093	Payments related to shared services arrangement	156,500
0099	Other intergovernmental charges	1,467,585
TG	Total governmental activities	<u>279,679,367</u>
TP	<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 279,679,367</u>
IC	<b>Component Unit</b>	<u>\$ 6,773,733</u>

The Notes to the Financial Statements are an integral part of this statement.



**Exhibit B-1**

3	4	5	Net (Expense) Revenue and Changes in Net Position	Component Unit
Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Unit
\$ 421,428	\$ 13,265,536	\$ -	\$ (114,738,555)	\$ -
-	157,122	-	(2,258,267)	-
-	2,900,774	-	(3,606,873)	-
-	611,105	-	(3,027,937)	-
18,915	688,973	-	(11,621,410)	-
-	2,058,294	-	(6,107,662)	-
5,329	11,231	-	(248,697)	-
-	89,323	-	(2,042,267)	-
559,187	283,299	-	(6,195,107)	-
2,956,987	9,427,539	-	(294,748)	-
427,038	126,902	-	(4,246,591)	-
1,167,654	10,317,771	-	3,609,903	-
880,264	511,712	-	(17,088,822)	-
-	37,784	-	(1,336,924)	-
-	105,926	-	(4,214,610)	-
-	211,696	-	(286,831)	-
-	96,526	-	(8,526,933)	-
-	128,549	-	(192,229)	-
-	4,307	-	(2,352,890)	-
-	-	-	(45,806,661)	-
-	-	-	(156,500)	-
-	-	-	(1,467,585)	-
<u>6,436,802</u>	<u>41,034,369</u>	<u>-</u>	<u>(232,208,196)</u>	<u>-</u>
<u>\$ 6,436,802</u>	<u>\$ 41,034,369</u>	<u>\$ -</u>	<u>(232,208,196)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 6,364,109</u>	<u>\$ -</u>	<u>-</u>	<u>(409,624)</u>
General revenues:				
			192,120,690	-
			14,756,633	-
			14,375,721	-
			579,321	-
			1,657,868	-
			<u>223,490,233</u>	<u>-</u>
			(8,717,963)	(409,624)
			86,186,632	2,988,153
<b>NET POSITION - ENDING</b>			<u>\$ 77,468,669</u>	<u>\$ 2,578,529</u>

**Midland Independent School District**  
**Balance Sheet – Governmental Funds**  
**August 31, 2017**

Data Control Codes		199	240	599
		General Fund	National School Breakfast/Lunch Program	Debt Service Fund
<b>ASSETS</b>				
1110	Cash and cash equivalents	\$ 13,183,693	\$ 1,838,150	\$ 224,103
1120	Current investments	24,992,846	1,266,748	2,262,915
1220	Property taxes receivable	6,142,376	-	472,287
1230	Allowance for uncollectable taxes	(3,562,578)	-	(273,926)
1240	Due from other governments	3,876,831	157,438	-
1260	Due from other funds	13,758,450	13,180	-
1290	Other receivables	728,306	-	-
1300	Inventories	388,671	1,067,793	-
1000	Total assets	59,508,595	4,343,309	2,685,379
1000a	<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 59,508,595</b>	<b>\$ 4,343,309</b>	<b>\$ 2,685,379</b>
<b>LIABILITIES</b>				
2110	Accounts payable	\$ 1,344,646	\$ 85,300	\$ -
2150	Payroll deductions and withholdings	192,853	-	-
2160	Accrued wages payable	4,496,573	262,668	-
2170	Due to other funds	8,825,727	1,013,399	-
2180	Due to other governments	324,066	-	-
2190	Due to student groups	-	-	-
2300	Unearned revenue	142,415	-	-
2000	Total liabilities	15,326,280	1,361,367	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2600	Unavailable revenue - property taxes	1,405,496	-	108,069
	Total deferred inflows of resources	1,405,496	-	108,069
<b>FUND BALANCES</b>				
3410	Nonspendable - inventories	388,671	-	-
3450	Restricted - grants	-	2,981,942	-
3470	Restricted - capital acquisitions and contractual obligations	-	-	-
3480	Restricted - debt service	-	-	2,577,310
3600	Unassigned	42,388,148	-	-
3000	Total fund balances	42,776,819	2,981,942	2,577,310
4000	<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 59,508,595</b>	<b>\$ 4,343,309</b>	<b>\$ 2,685,379</b>

The Notes to the Financial Statements are an integral part of this statement.

**Exhibit C-1**

<b>699</b>		<b>98</b>
<b>Capital Projects Fund</b>	<b>Total Nonmajor Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 627,131	\$ 15,873,077
1,669,408	-	30,191,917
-	-	6,614,663
-	-	(3,836,504)
-	3,520,971	7,555,240
2,557	563,126	14,337,313
-	-	728,306
-	-	1,456,464
<u>1,671,965</u>	<u>4,711,228</u>	<u>72,920,476</u>
<u>\$ 1,671,965</u>	<u>\$ 4,711,228</u>	<u>\$ 72,920,476</u>
\$ 173,195	\$ 374,218	\$ 1,977,359
-	-	192,853
-	378,898	5,138,139
416,457	3,720,511	13,976,094
-	-	324,066
-	-	-
-	84,534	226,949
<u>589,652</u>	<u>4,558,161</u>	<u>21,835,460</u>
-	-	1,513,565
-	-	1,513,565
-	-	388,671
-	153,067	3,135,009
1,082,313	-	1,082,313
-	-	2,577,310
-	-	42,388,148
<u>1,082,313</u>	<u>153,067</u>	<u>49,571,451</u>
<u>\$ 1,671,965</u>	<u>\$ 4,711,228</u>	<u>\$ 72,920,476</u>

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**Midland Independent School District**  
 Reconciliation of the Governmental Funds Balance Sheet  
 to the Statement of Net Position  
 August 31, 2017

**Exhibit C-2**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)** **\$ 49,571,451**

The District uses internal service funds to charge the costs of certain activities, such as self-insurance and print, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to decrease net position. (3,624,033)

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 461,341,178	
Accumulated depreciation of governmental capital assets	<u>(149,296,318)</u>	312,044,860

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds. 1,513,565

Long-term liabilities and the respective accrued interest payable, including bonds payable, note payable, workers compensation, compensated absences, and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:

Bonds payable, at original par	\$(215,990,000)	
Premium on bonds payable	(21,844,993)	
Accrued interest on the bonds	(903,972)	
Compensated absences	(3,703,636)	
Net pension liability	<u>(54,623,985)</u>	(297,066,586)

Deferred charge on refunding is reported as a deferred outflow of resources in the statement of net position and it is not reported in the governmental funds as it is not a current financial resource available to pay for current expenditures. 1,889,308

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then. 20,899,260

Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. (5,453,318)

Deferred gain on refunding is reported as a deferred inflow of resources in the statement of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. (2,305,838)

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)** **\$ 77,468,669**

**Midland Independent School District**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances – Governmental Funds**  
**For the Fiscal Year Ended August 31, 2017**

<u>Data Control Codes</u>	<u>199</u>	<u>240</u>	<u>599</u>
	<u>General Fund</u>	<u>National School Breakfast/Lunch Program</u>	<u>Debt Service Fund</u>
<b>REVENUES</b>			
5700 Local and intermediate revenues	\$ 209,059,960	\$ 3,032,199	\$ 14,909,873
5800 State program revenues	19,542,875	58,646	229,382
5900 Federal program revenues	2,539,273	8,624,251	-
5020 Total revenues	<u>231,142,108</u>	<u>11,715,096</u>	<u>15,139,255</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	112,719,107	-	-
0012 Instructional resources and media services	2,128,626	-	-
0013 Curriculum and instructional staff development	3,176,512	-	-
0021 Instructional leadership	3,057,557	-	-
0023 School leadership	11,678,462	-	-
0031 Guidance, counseling, and evaluation services	6,183,225	-	-
0032 Social work services	255,109	-	-
0033 Health services	2,079,715	-	-
0034 Student transportation	6,113,871	-	-
0035 Food service	-	11,774,905	-
0036 Extracurricular activities	3,911,366	-	-
0041 General administration	4,009,435	-	-
0051 Plant maintenance and operations	20,239,382	-	-
0052 Security and monitoring services	1,261,458	-	-
0053 Data processing services	4,236,305	-	-
0061 Community services	290,098	-	-
Debt service:			
0071 Principal on long-term debt	-	-	7,190,000
0072 Interest on long-term debt	-	-	9,575,314
0073 Issuance costs and fees	-	-	320,778
Capital outlay:			
0081 Facilities acquisition and construction	-	-	-
Intergovernmental:			
0091 Contracted instructional services between schools	45,806,661	-	-
0093 Payments related to shared service arrangements	156,500	-	-
0099 Other intergovernmental charges	1,467,585	-	-
6030 Total expenditures	<u>228,770,974</u>	<u>11,774,905</u>	<u>17,086,092</u>
1100 Excess (deficiency) of revenues over (under)expenditures	2,371,134	(59,809)	(1,946,837)
<b>OTHER FINANCING SOURCES (USES)</b>			
7901 Refunding bonds issued	-	-	26,000,000
7915 Transfers in	-	1,500,000	-
7916 Premium or (discount) on issuance of bonds	-	-	1,564,732
8911 Transfers out	(1,500,000)	-	-
8940 Payment to refunded bonds escrow agent	-	-	(27,231,417)
7080 Total other financing sources (uses)	<u>(1,500,000)</u>	<u>1,500,000</u>	<u>333,315</u>
1200 Net change in fund balances	871,134	1,440,191	(1,613,522)
0100 Fund balances - beginning	<u>41,905,685</u>	<u>1,541,751</u>	<u>4,190,832</u>
3000 <b>FUND BALANCES - ENDING</b>	<u>\$ 42,776,819</u>	<u>\$ 2,981,942</u>	<u>\$ 2,577,310</u>

The Notes to the Financial Statements are an integral part of this statement.

**Exhibit C-3**

<b>699</b>	<b>98</b>	
<b>Capital Projects Fund</b>	<b>Total Nonmajor Funds</b>	<b>Total Governmental Funds</b>
\$ 28,956	\$ 131,769	\$ 227,162,757
-	1,222,175	21,053,078
-	10,052,263	21,215,787
<u>28,956</u>	<u>11,406,207</u>	<u>269,431,622</u>
-	5,764,918	118,484,025
-	72,796	2,201,422
-	3,059,617	6,236,129
-	436,091	3,493,648
-	162,145	11,840,607
-	1,491,990	7,675,215
-	-	255,109
-	-	2,079,715
-	119,220	6,233,091
-	43,383	11,818,288
-	-	3,911,366
-	3,631	4,013,066
-	-	20,239,382
-	-	1,261,458
-	-	4,236,305
-	185,990	476,088
-	-	7,190,000
-	-	9,575,314
-	-	320,778
2,327,206	-	2,327,206
-	-	45,806,661
-	-	156,500
-	-	1,467,585
<u>2,327,206</u>	<u>11,339,781</u>	<u>271,298,958</u>
(2,298,250)	66,426	(1,867,336)
-	-	26,000,000
-	-	1,500,000
-	-	1,564,732
-	-	(1,500,000)
-	-	(27,231,417)
<u>-</u>	<u>-</u>	<u>333,315</u>
(2,298,250)	66,426	(1,534,021)
<u>3,380,563</u>	<u>86,641</u>	<u>51,105,472</u>
<u>\$ 1,082,313</u>	<u>\$ 153,067</u>	<u>\$ 49,571,451</u>

# Midland Independent School District

Exhibit C-4

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Fiscal Year Ended August 31, 2017

<b>TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-3)</b>	<b>\$ (1,534,021)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions to other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.	(3,702,607)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is capitalized allocated over their estimated useful lives as depreciation expense.	
Capital assets increased	\$ 4,020,019
Depreciation expense	<u>(11,391,490)</u>
	(7,371,471)
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.	(776,244)
Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	
Par value	\$ (26,000,000)
(Premium) discount	<u>(1,564,732)</u>
	(27,564,732)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	7,190,000
Payment to escrow agent to refund bonds from refunding proceeds	27,231,417
Bond issuance costs are reported in governmental funds as expenditures. However, in the statement of activities, the bond issuance costs are capitalized allocated over the life of the bond as interest expense.	333,315
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The (increase) decrease in interest expense reported in the statement of activities consist of the following:	
Amortization of bond premium and discount	\$ 1,491,657
Amortization of deferred charge on refunding	<u>(539,802)</u>
	951,855
The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	(6,345)
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:	
Deferred outflows increased (decreased)	\$ (3,752,694)
Deferred inflows (increased) decreased	(1,272,161)
Net pension liability (increased) decreased	<u>1,555,725</u>
	(3,469,130)
<b>CHANGE IN NET POSITION FOR GOVERNMENTAL ACTIVITIES (EXHIBIT B-1)</b>	<b>\$ (8,717,963)</b>

The Notes to the Financial Statements are an integral part of this statement.



**Midland Independent School District**  
**Statement of Net Position**  
**Proprietary Funds**  
**August 31, 2017**

**Exhibit D-1**

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Funds</u>
	<b>ASSETS</b>	
	Current assets:	
1110	Cash and cash equivalents	\$ 411,558
1120	Current investments	293,667
1260	Due from other funds	16,821
1410	Prepaid items	116,906
	Total current assets	<u>838,952</u>
	Noncurrent assets:	
1520	Buildings and improvements, net	687,042
	Total noncurrent assets	<u>687,042</u>
1000	Total assets	1,525,994
	<b>LIABILITIES</b>	
	Current liabilities:	
2110	Accounts payable	987,120
2170	Due to other funds	378,335
2200	Accrued liabilities	3,784,572
	Total current liabilities	<u>5,150,027</u>
2000	Total liabilities	5,150,027
	<b>NET POSITION</b>	
3200	Investment in capital assets	687,042
3900	Unrestricted	(4,311,075)
3000	Total net position	<u>\$ (3,624,033)</u>

The Notes to the Financial Statements are an integral part of this statement.

**Midland Independent School District**  
**Statement of Revenues, Expenses, and Changes**  
**in Net Position – Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2017**

**Exhibit D-2**

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Funds</u>
<b>OPERATING REVENUES</b>		
5700	Local and intermediate revenues	\$ 20,072,777
5020	Total revenues	20,072,777
<b>OPERATING EXPENSES</b>		
6200	Professional and contracted services	353,252
6300	Supplies and materials	1,681
6400	Other operating costs	23,428,035
6030	Total expenses	23,782,968
	Operating loss	(3,710,191)
<b>NON-OPERATING REVENUES</b>		
7955	Earnings from temp. deposits and investments	7,584
8030	Total non-operating revenues	7,584
1300	Change in net position	(3,702,607)
0100	Net position - beginning	78,574
3300	<b>NET POSITION - ENDING</b>	<b>\$ (3,624,033)</b>

The Notes to the Financial Statements are an integral part of this statement.

**Midland Independent School District**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2017**

**Exhibit D-3**

	<b>Governmental Activities</b>
	<u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from quasi-external operating activities	\$ 22,350,101
Cash payments to suppliers for goods and benefits	(24,138,879)
Net cash used in operating activities	(1,788,778)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends received on investments	7,584
Sale of investments	1,793,069
Net cash provided by investing activities	1,800,653
Net increase in cash and cash equivalents	11,875
Cash and cash equivalents at beginning of year	399,683
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 411,558</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>	
Operating loss	\$ (3,710,191)
Depreciation	28,828
Change in assets and liabilities:	
Decrease in due from other funds	413,625
Increase in prepaid insurance	(116,906)
Increase in accounts payable	903,282
Increase in due to other funds	378,335
Increase in payable from restricted assets	314,249
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>\$ (1,788,778)</u>

The Notes to the Financial Statements are an integral part of this statement.

**Midland Independent School District**  
Statement of Fiduciary Net Position  
Fiduciary Fund  
August 31, 2017

**Exhibit E-1**

Data Control Codes		801	893	803 Agency Fund
		Private Purpose Trust Fund	Employee Benefits Trust Fund	Student Activity
<b>ASSETS</b>				
1110	Cash and cash equivalents	\$ 19,903	\$ 58,378	\$ 990,835
1120	Current investments	355,564	58,099	-
1260	Due from other funds	-	-	295
1290	Other receivables	-	227,987	-
1000	Total assets	375,467	344,464	991,130
<b>LIABILITIES</b>				
2110	Accounts payable	4,000	71,185	3,411
2400	Payable from restricted assets	371,467	-	-
2190	Due to student groups	-	-	987,719
2420	Due to employees	-	273,279	-
2000	Total liabilities	375,467	344,464	\$ 991,130
<b>NET POSITION</b>				
3900	Unrestricted	-	-	-
<b>TOTAL NET POSITION</b>		\$ -	\$ -	-

The Notes to the Financial Statements are an integral part of this statement.

**Miand Independent School District**  
Statement of Changes in Net Position  
Fiduciary Funds  
For the Fiscal Year Ended August 31, 2017

**Exhibit E-2**

	<b>801 Private Purpose Trust Fund</b>	<b>893 Employee Benefits Trust Fund</b>
<b>ADDITIONS</b>		
Contributions:		
Private donations	\$ 16,040	\$ -
Decrease in scholarships	11,410	
Decrease in payable from restricted assets	22,566	1,081,361
Benefits	-	540,246
Total contributions	<u>50,016</u>	<u>1,621,607</u>
Investment earnings:		
Earnings from temp. deposits and investments	2,269	450
Total investment earnings	<u>2,269</u>	<u>450</u>
Total additions	52,285	1,622,057
<b>DEDUCTIONS</b>		
Benefits	52,285	-
Increase in payables to employees	-	45,722
Decrease in cash due to due from	-	1,081,361
Use of forfeitures	-	494,974
Total deductions	<u>52,285</u>	<u>1,622,057</u>
Change in net position	-	-
Net position - beginning	-	-
<b>NET POSITION - ENDING</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The Notes to the Financial Statements are an integral part of this statement.

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## Midland Independent School District

### Notes to the Financial Statements

#### Note 1. Summary of Significant Accounting Policies

Midland Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in AU-C Section 700 of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

##### A. Reporting Entity

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." As amended by GASB 39, "Determining Whether Organizations are Component Units" and GASB 61, "The Financial Reporting Entity Omnibus," The Midland I.S.D. Education Foundation is a component unit of the District. The Foundation's purpose is to support teachers and students of the District in the advancement of their educational careers and to provide grants for great ideas to develop creative learning in the classroom. It is discretely presented in a separate column on the government-wide financial statements (Exhibits A-1 and B-1) in order to emphasize that it is legally separate from the District.

##### B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District and its component units nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always reported as general revenues.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

## **Midland Independent School District**

### **Notes to the Financial Statements**

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the health insurance and worker's compensation insurance internal service funds are District contributions. Operating expenses include claims expense and administrative expenses for administering these insurance funds. All other revenues and expenses not meeting this definition are reported as nonoperating.

#### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement focus is the accounting convention which determines which assets and liabilities are included on the balance sheet of a fund type and whether a fund type's operating statement presents "financial flow" or capital maintenance information.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus applied.

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, deferred inflows of resources, deferred outflows of resources and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable and available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.



## Midland Independent School District

### Notes to the Financial Statements

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expensed in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position (Exhibit A-1). The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

#### D. Fund Accounting

The District reports the following major governmental funds:

*The General Fund* – is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

*National School Breakfast and Lunch Program Fund* – is used to account for federal reimbursement revenue from the United States Department of Agriculture as well as user fees (meal charges) for the National School Breakfast and Lunch Programs.

*The Debt Service Fund* – is used to account for the District's current portion of voter approved debt and the Foundation School Program's facilities allotment for bonded indebtedness.

*Capital Projects Fund* – is used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Additionally, the District reports the following nonmajor fund types:

##### Governmental Funds:

*Special revenue funds* – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in Special Revenue Funds. Most federal and some state financial assistance is accounted for in a Special Revenue Fund, and sometimes, unused balances must be returned to the grantor at the close of specified project periods.

##### Proprietary Funds:

*Internal service funds* – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District has an Internal Service Fund for health, dental and workers compensation benefits and another Internal Service Fund for employee housing.

## **Midland Independent School District**

### **Notes to the Financial Statements**

#### **Fiduciary Funds:**

*Private purpose trust funds* – Donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the scholarship fund.

*Employee benefit trust funds* – These funds are used to account for local pension and other employee benefit funds that are provided by the District in lieu of or in addition to the Teacher Retirement System of Texas. The District's Employee Benefit Trust Funds are the matching annuity and section 125 funds.

*Agency funds* – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the student activity fund.

#### **E. Other Accounting Policies**

##### **1. Cash and Cash Equivalents**

For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

##### **2. Investments**

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

##### **3. Inventory**

The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and revenue when received. When requisitioned, inventory is decreased and expenditures are charged for an equal amount.

##### **4. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property taxes which are measurable (quantifiable) and available (collectible within the current period or soon enough thereafter to finance expenditures of the current period, which the District has estimated to be collected in the two months after the fiscal year end) are recognized as revenue in the year of levy in the governmental fund financial statements. Property taxes, which are measurable but not available, are recorded net of estimated uncollectible amounts, as deferred inflows of resources in the year of the levy in the governmental fund financial statements. Such deferred inflows of resources are recognized in the fund financial statements as revenue in the fiscal year in which they become available. In the government-wide financial statements, property taxes are recognized as revenues in the year for which the taxes are levied.

Current year tax collections are credited to the appropriate fund as per the tax rate ordinance approved by the Board of Trustees. For the fiscal year ended August 31, 2017, the rates were \$1.04005 for maintenance and \$0.08 for debt service respectively, per \$100 of assessed value.

## Midland Independent School District

### Notes to the Financial Statements

#### 5. *Delinquent Taxes Receivable*

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. Over the past four years, the property tax receivable allowance averages to 58 % of the outstanding property taxes at August 31, 2017.

#### 6. *Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### 7. *Capital Assets*

Capital assets including land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as items with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Class</u>	<u>Lives</u>
Buildings and improvements	40
Buses	10
Other vehicles	5
Office equipment	5
Computer equipment	5

#### 8. *Deferred Outflows/Inflows of Resources*

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

**Midland Independent School District**  
Notes to the Financial Statements

The components of deferred outflows of resources and deferred inflows of resources in the government-wide and fund level financial statements are as follows:

	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Debt Service Fund
Deferred outflows of resources:			
Deferred outflows from pension activities	\$ (3,772,032)	\$ -	\$ -
Deferred contribution after the measurement date	24,671,292	-	-
Deferred charge on refunding	1,889,308	-	-
<b>Total deferred outflows of resources</b>	<b>\$ 22,788,568</b>	<b>\$ -</b>	<b>\$ -</b>
Deferred inflows of resources:			
Deferred inflows from pension activities	\$ 5,453,318	\$ -	\$ -
Unavailable property taxes	-	1,405,496	108,069
Deferred gain on refunding	2,305,838	-	-
<b>Total deferred inflows of resources</b>	<b>\$ 7,759,156</b>	<b>\$ 1,405,496</b>	<b>\$ 108,069</b>

**9. Fund Balances and Net Position**

Government-Wide Financial Statements

Net position on the Statement of Net Position include the following:

Net investment in capital assets – the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt net of premiums and discounts, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for grants – the component of net position that reports the fund balance of the National School Breakfast/Lunch Program, and other non-major funds.

Restricted for debt service – the component of net position that reports the difference between assets and liabilities with constraints placed on their use by law.

Restricted for other purposes – component of net position that can be spent only for the specific purposes because of constraints imposed by the external providers, or imposed by constitutional provisions or enabling legislation. As of August 31, 2017, the primary government has \$388,671 that is restricted for inventory and prepaid items. As of the same date, the component unit has \$2,578,529 this is restricted for student and employee scholarships and employee incentives.

Unrestricted -- the difference between the assets and liabilities that is not reported in any of the classifications above.

## Midland Independent School District

### Notes to the Financial Statements

#### Governmental Fund Financial Statements

The District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions* (GASB 54). The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are non-spendable, restricted, committed, assigned, and unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

#### In accordance with GASB 54, the District classifies governmental fund balances as follows:

**Non-spendable** -- includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This amount in this classification represents inventories.

**Restricted** – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes the National School Breakfast/Lunch Program, retirement of long term debt, construction programs and other federal and state grants.

**Committed** – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action in an open meeting of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the District's Board of Trustees. This classification is comprised primarily of funds committed to construction. At August 31, 2017, the District had no committed fund balance classifications.

**Assigned** – includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. Fund balance can be assigned by the District's Board, the Superintendent, or the Chief Financial Officer pursuant to the District's fund balance policy. At August 31, 2017, the District had no assigned fund balance classifications.

**Unassigned** – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

#### **10. Account Code Reporting**

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

## **Midland Independent School District**

### **Notes to the Financial Statements**

#### **11. Accounting Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenditures. Actual results could differ from those reported.

The amount of state foundation school revenue a school district earns for a year, can and does vary until the time when final PEIMS submissions have been factored into the formula. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that there could be a minimal change to foundation revenue as calculated at August 31, 2017.

#### **Note 2. Stewardship, Compliance, and Accountability**

##### **Budgetary Data**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the National School Breakfast/Lunch Program. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-2 and J-3.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

#### **Note 3. Detailed Notes on All Funds and Account Groups**

##### **A. Deposits and Investments**

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with its agent bank, approved pledged securities in an amount sufficient to protect District 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.

## **Midland Independent School District**

### **Notes to the Financial Statements**

At August 31, 2017, the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held in the district's name by the district's agent. In addition, the following is disclosed regarding coverage of combined balances on the date of the highest deposit:

1. Name of bank: Wells Fargo Bank
2. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$29,678,123 and occurred on April 25, 2017.
3. Largest combined collected cash account balance required to be collateralized amounted to \$25,331,960 and occurred on April 25, 2017.
4. The total amount of FDIC coverage at the time of the largest combined balance was \$250,000 at April 25, 2017.

#### **Legal and Contractual Provisions Governing Deposits and Investments**

The Public Funds Investment Act (Governments Code Chapter 2256) contains specific provisions in the area of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the district to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable expenditures, (4) acceptable risk levels, (5) expected rate of return, (6) maximum allowable stated maturity, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds.

The Act also requires the District to have independent auditors perform testing procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

#### **Policies Governing Deposits and Investments**

In compliance with the Public Fund Investment Act, the District has adopted a deposit and investment policy that allows investments with the following risks:

##### *Custodial Credit Risk – Deposits*

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposit may not be returned. The District's policy regarding types of deposits allowed and collateral requirements is as follows. The depository bank is required by contract to collateralize all deposits as described by the Public Funds Investment Act with, (1) the market value of pledged securities, (2) a corporate surety bond or (3) FDIC Insurance. The District's depository is required to collateralize deposits by a value equal to at least 110% of the ledger balance up to a maximum of fifteen million dollars. All deposits were fully collateralized for the 2016-2017 fiscal year.

##### *Custodial Credit Risk – Investments*

For an investment, this is the risk that in the event of the failure of the custodial institution, the District would not be able to recover the value of its investments or collateral securities that are in the possession of the custodian.

## **Midland Independent School District**

### Notes to the Financial Statements

#### **Investment in State Investment Pools**

The District is a voluntary participant in various investment pools. These pools included the following: TexPool, Lone Star Investment Pool, Texas CLASS and Texas Term.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

Lone Star Investment Pool is governed by an 11-member board and is a AAA rated investment program tailored to the investment needs of local governments within the state of Texas. Lone Star Investment Pool assists governments across Texas make the most of taxpayer dollars. Local officials can improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund in full compliance with the Texas Public Funds Investment Act.

Texas CLASS is a local government investment pool emphasizing safety, liquidity, convenience and competitive yield. Since 1996, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. Texas CLASS carries a letter of credit that ensures the integrity of the fund, making it the only investment pool in Texas backed by a letter of credit. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated 'AAAm' by Standard and Poor's Ratings Services. The 'AAAm' principal stability fund rating is the highest assigned to principal stability government investment pools and is a direct reflection of Texas CLASS's outstanding credit quality and management.

The TexasTERM Local Government Investment Pool was created by and for Texas local governments to provide investment programs tailored to the needs of Texas cities, counties, school districts and other public investors. TexasTERM portfolios seek to provide these investors with safety, flexibility and competitive yields. Shares are distributed by PFM Fund Distributors, Inc., member Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC. The District currently utilizes Texas DAILY, a money market portfolio with daily liquidity that is rated AAAM by Standard & Poor's.



# Midland Independent School District

## Notes to the Financial Statements

The investments held at August 31, 2017 are as follows:

Governmental Funds' Investment Type	Moody's / S&P Rating	August 31, 2017	Fair Value Measurements Using			Percentage of Total Investments	WAM (1)
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Investments measured at amortized costs							
Investment pools:							
Texpool	AAAm	\$ 8,732,372	\$ 8,732,372	\$ -	\$ -	28.64%	42
Texpool Prime		19,658,894	19,658,894	-	-	64.49%	37
Lonestar / First Public	AAAm	1,383,665	1,383,665	-	-	4.54%	41
Investments measured at fair value, not subject to level reporting							
Investment pools:							
Texas Class		490,816	490,816	-	-	1.61%	47
Texas Term - TexasDAILY	AAAm	219,837	219,837	-	-	0.72%	43
<b>Total value</b>		<b>\$ 30,485,584</b>	<b>\$ 30,485,584</b>	<b>\$ -</b>	<b>\$ -</b>	<b>100.00%</b>	
<b>Portfolio weighted average maturity</b>							<b>26</b>

Fiduciary Funds' Investment Type	Moody's / S&P Rating	August 31, 2017	Fair Value Measurements Using			Percentage of Total Investments	WAM (1)
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Investments measured at amortized costs							
Investment pools:							
Texpool	AAAm	\$ 413,663	\$ 413,663	\$ -	\$ -	100.00%	42
<b>Total value</b>		<b>\$ 413,663</b>	<b>\$ 413,663</b>	<b>\$ -</b>	<b>\$ -</b>	<b>100.00%</b>	
<b>Portfolio weighted average maturity</b>							<b>42</b>

WAM (Weighted Average Maturity)

1. This weighted average maturity calculation uses the SEC Rule 2A-7 definition for stated maturity for any floating rate instrument held in the portfolio to determine the weighted average maturity for the pool. This rule specifies that a variable rate instrument to be paid in 397 calendar days or less shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

2. This weighted average maturity calculation uses the final maturity of any floating rate instruments held in the portfolio to calculate the weighted average maturity for the pool.

### B. Concentration of Credit Risk

The investment policy of the District does not require the investment portfolios to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturities, or specified issues.

### C. Interfund Receivables, Payables and Transfers

#### 1. Receivables/Payables

In the fund financial statements, interfund balances are the results of normal transactions between funds and will be liquidated in the subsequent fiscal year.

Interfund balances at August 31, 2017, resulting from payroll and accumulated fund charges, consisted of the following individual fund balances:

Due From/To Other Funds	Interfund Receivables	Interfund Payables
General Fund	\$ 13,758,450	\$ 8,825,727
Capital Projects Fund	2,557	416,457
Internal Service Funds	16,821	378,335
Trust and Agency Funds	295	-
National School Breakfast/Lunch Program	13,180	1,013,399
Nonmajor governmental funds	563,126	3,720,511
<b>Totals</b>	<b>\$ 14,354,429</b>	<b>\$ 14,354,429</b>

**Midland Independent School District**  
Notes to the Financial Statements

**2. Transfers**

Interfund transfers for the year ended August 31, 2017 consisted of the following amounts:

<u>Transfer Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	National School Breakfast/Lunch Program	\$ 1,500,000
<b>Total</b>		<b><u>\$ 1,500,000</u></b>

**D. Capital Asset Activity**

Capital asset activity for the District for the year ended August 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers &amp; Adjustments</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land and improvements	\$ 9,009,142	\$ -	\$ -	\$ -	\$ 9,009,142
Construction in progress	33,219,491	2,591,929	-	(34,768,541)	1,042,879
<b>Total capital assets, not being depreciated</b>	<b>42,228,633</b>	<b>2,591,929</b>	<b>-</b>	<b>(34,768,541)</b>	<b>10,052,021</b>
Capital assets, being depreciated:					
Buildings and improvements	385,897,275	1,061,259	-	34,768,541	421,727,075
Furniture and equipment	29,195,251	366,831	-	-	29,562,082
<b>Total capital assets, being depreciated</b>	<b>415,092,526</b>	<b>1,428,090</b>	<b>-</b>	<b>34,768,541</b>	<b>451,289,157</b>
Less accumulated depreciation for:					
Buildings and improvements	(113,496,300)	(10,036,538)	-	-	(123,532,838)
Furniture and equipment	(24,408,528)	(1,354,952)	-	-	(25,763,480)
<b>Total accumulated depreciation</b>	<b>(137,904,828)</b>	<b>(11,391,490)</b>	<b>-</b>	<b>-</b>	<b>(149,296,318)</b>
<b>Total capital assets, being depreciated, net</b>	<b>277,187,698</b>	<b>(9,963,400)</b>	<b>-</b>	<b>34,768,541</b>	<b>301,992,839</b>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 319,416,331</u></b>	<b><u>\$ (7,371,471)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 312,044,860</u></b>
<b>Internal service funds:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 792,741	\$ -	\$ -	\$ -	\$ 792,741
Less accumulated depreciation for:					
Buildings and improvements	(76,872)	(28,827)	-	-	(105,699)
<b>Internal service funds capital assets, net</b>	<b><u>\$ 715,869</u></b>	<b><u>\$ (28,827)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 687,042</u></b>

**Midland Independent School District**  
**Notes to the Financial Statements**

Governmental activities:	
11 Instruction	\$ 6,193,966
12 Instructional resources and media services	194,954
13 Curriculum and staff development	23,059
23 School leadership	245,125
31 Guidance, counseling, & evaluation services	10,248
32 Social work services	11,621
33 Health services	21,686
34 Student transportation	935,823
35 Food service	616,767
36 Extracurricular activities	1,159,672
41 General administration	40,114
51 Plant maintenance and operations	1,689,881
52 Security and monitoring services	161,375
53 Data processing services	87,199
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 11,391,490</u></b>

**E. Bonds Payable**

Bonded indebtedness of the District is reflected in the bond liability. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of long term debt transactions as of August 31, 2017 is as follows:

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2007	4.38-4.75%	\$ 37,035,000	2032	\$ 270,000	\$ -	\$ (270,000)	\$ -
2009	1.300%	4,634,990	2020	515,000	-	(120,000)	395,000
2011	1.75-5.00%	26,500,000	2028	21,265,000	-	(1,355,000)	19,910,000
2012	2.00-5.00%	22,835,000	2028	21,985,000	-	(915,000)	21,070,000
2013	1.00-5.00%	70,175,000	2038	58,135,000	-	(28,700,000)	29,435,000
2014	2.00-5.00%	85,235,000	2040	84,230,000	-	(1,035,000)	83,195,000
2015	2.00-3.00%	38,495,000	2032	37,620,000	-	(1,350,000)	36,270,000
2016	2.00-5.00%	26,000,000	2038	-	26,000,000	(285,000)	25,715,000
<b>Totals</b>				<b><u>\$ 224,020,000</u></b>	<b><u>\$ 26,000,000</u></b>	<b><u>\$ (34,030,000)</u></b>	<b><u>\$ 215,990,000</u></b>

**Midland Independent School District**  
Notes to the Financial Statements

Debt service requirements are as follows:

Year Ending Augusts 31,	Principal	Interest	Total Requirements
2018	\$ 7,200,000	\$ 10,824,102	\$ 18,024,102
2019	7,475,000	10,809,431	18,284,431
2020	7,785,000	10,507,069	18,292,069
2021	8,215,000	10,177,869	18,392,869
2022	8,260,000	9,819,781	18,079,781
2023	8,645,000	9,437,431	18,082,431
2024	9,040,000	9,040,156	18,080,156
2025	9,115,000	8,633,206	17,748,206
2026	9,545,000	8,209,869	17,754,869
2027	10,025,000	7,753,656	17,778,656
2028	10,530,000	7,251,431	17,781,431
2029	10,330,000	6,737,581	17,067,581
2030	10,770,000	6,205,131	16,975,131
2031	11,200,000	5,640,806	16,840,806
2032	15,535,000	5,034,306	20,569,306
2033	10,155,000	4,436,756	14,591,756
2034	10,480,000	3,900,181	14,380,181
2035	10,985,000	3,310,406	14,295,406
2036	11,515,000	2,629,106	14,144,106
2037 and after	29,185,000	3,758,265	32,943,265
<b>Totals</b>	<b>\$ 215,990,000</b>	<b>\$ 144,116,539</b>	<b>\$ 360,106,539</b>

Bonded indebtedness of the District is reflected in the bond liability, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. The School District's legal debt service margin is \$.50 per \$100 assessed value, which calculates to approximately \$81,000,000.

On October 15, 2016, Midland Independent School District issued \$26,000,000 of Unlimited Tax Refunding Bonds, Series 2016. The proceeds of the refunding were be used to refund outstanding debt of the Unlimited Tax Refunding 2013 series totaling \$26,840,000. The refunding provided a Net Reoffering Premium of \$1,564,732 which allowed the District to achieve an economic gain net present value savings of \$2,477,402.

On November 10, 2015, Midland Independent School District issued \$38,495,000 of Unlimited Tax Refunding Bonds, Series 2015. The proceeds of the refunding were be used to refund outstanding debt of the Unlimited Tax Refunding 2006 series totaling \$5,750,000 series and the Unlimited Tax School Building Bonds, Series 2013 in the amount of \$33,420,000. Also as a component of the refunding the Districts redeemed \$2,435,000 of the 2013 debt with an original maturity of February 15, 2038 from District reserves. The refunding provided a Net Reoffering Premium of \$3,519,627 which allowed the District to achieve an economic gain net present value savings of \$6,613,933.

On January 29, 2014, Midland Independent School District issued \$85,235,000 of Unlimited Tax School Building Series 2015, approved by voters on November 6, 2012, (1) for construction, improvements, renovations and to equip school buildings, and (2) to pay costs associated with the issuance of the bonds. The 2015 Series had a net re-offering premium of \$8,696,811 and issuance costs of \$821,812. The Series 2015 issuance completes the authorization approved by the November 6, 2012 election. The bonds are payable from a continuing direct annual ad valorem tax levied by the District, without limits as to the rate or amount, on all taxable property within the District.

## **Midland Independent School District**

### **Notes to the Financial Statements**

On March 19, 2013 Midland Independent School District issued \$70,175,000 of Unlimited Tax School Building and Refunding Bonds, Series 2013, approved by voters on November 6, 2012, (1) for construction, improvements, renovations and to equip school buildings, (2) to retire a portion of the 2003 Series, Unlimited Tax School Building and Refunding Bonds, and (3) to pay costs associated with the issuance of the bonds. The 2013 Series had a net reoffering premium of \$7,608,462 and issuance costs of \$689,231. The district used \$4 million of I&S fund balance in addition to the refunding to retire the full remaining balance amount of the 2003 Series. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore the entire amount is removed from the bond liability. The purpose of the refunding was to lower the overall debt service requirements of the District. The refunding decreased outstanding principal by \$6,985,000 and resulted in an economic gain of approximately \$1,904,563.

On September 23, 2011, the Midland Independent School District issued \$26,500,000 in Unlimited Tax Refunding Bonds 2011 to retire \$920,000 of Variable Unlimited Tax School Building Bonds Series 1997, and \$26,650,000 Unlimited Tax School Building and Refunding Bonds Series 2003. The 1997 Refunded Bonds were redeemed on November 1, 2011 and the Series 2003 refunded Bonds will be redeemed on February 15, 2013. The refunding had a net reoffering premium of \$3,341,428 an issuance cost of \$322,724. The investment will be adequate to retire the full amount of refunded bonds, which had a total book value of \$27,570,000. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore the entire amount is removed from the bond liability. The purpose of the refunding was to lower the overall service requirements of the District. The refunding decreased outstanding principal or total debt by approximately \$1,070,000 and resulted in an economic gain net present value savings of \$2,477,402.

On May 8, 2012, the Midland Independent School District issued \$22, 835,000 in Unlimited Tax Refunding Bonds 2012 to retire \$24,665,000 of Unlimited Tax School Building Bonds Series 2004. The Series 2004 Bonds will be redeemed on February 15, 2015. The refunding had a net reoffering premium of \$4,058,798 and a transfer of \$414,670 from Prior Issue Debt Service Funds and an issuance cost of \$299,298. The investment will be adequate to retire the full amount of refunded bonds, which had a total book value of \$24,665,000. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore the entire amount is removed from the bond liability. The purpose of the refunding was to lower the overall service requirements of the District. The refunding decreased outstanding principal or total debt by approximately \$1,830,000 and resulted in an economic gain total net present value savings of \$3,042,296.

On May 1, 2009, the Midland Independent School District issued \$4,634,990 in unlimited tax refunding bonds to retire a portion of outstanding debt on that date (Series 1997A and Series 1998). The proceeds were also used to pay for issuance costs of \$106,277. The proceeds were deposited directly into an escrow trust account and invested in obligations of the United States Government with maturities that coincide with principal and interest due dates. The investment will be adequate to retire the full amount of refunded bonds, which had a total book value of \$4,635,000. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore the entire amount is removed from the bond liability. The purpose of the refunding was to lower the overall service requirements of the District. The refunding decreased total debt service by approximately \$222,200 and resulted in an economic gain of \$172,162.

On July 10, 2007, Midland Independent School District issued \$37,035,000 of unlimited tax school building bonds, approved by voters on May 12, 2007, to be used for the construction, acquisition and equipping of school buildings in the District (including rehabilitation, renovation, expansion and improvement thereof) and to pay \$165,000 in issuance costs. The bonds are payable from a continuing direct annual ad valorem tax levied by the District, without limits as to the rate or amount, on all taxable property within the District.

## **Midland Independent School District**

### **Notes to the Financial Statements**

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of August 31, 2017.

In prior years, the District issued refunding bonds for the purpose of restructuring outstanding debt service requirements or decreasing the total debt service payments. These refunding issues defeased selected general obligation and maintenance bonds. The total principal outstanding of the insubstance defeased debt as of August 31, 2017 is \$ 0.

#### **F. Accumulated Unpaid Sick Leave Benefits**

The District has adopted a policy to reimburse, upon retirement of employees, who have a minimum of ten years' experience with the District, accrued sick leave up to 30 days. Any sick leave in excess of the 30-day accumulation is budgeted and paid within the current period. At August 31, 2017, the District's liability for unused sick leave is \$3,703,635. On November 13, 2017, the Board removed this policy.

#### **G. Defined Benefit Pension Plan**

##### **Plan Description**

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

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

##### **Pension Plan Fiduciary Net Position**

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued 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.

##### **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.

## Midland Independent School District

### Notes to the Financial Statements

#### Contribution

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.

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 83rd Texas legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal year 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for the fiscal years 2016 and 2017.

	2017	2016	2015
Member	7.7%	7.2%	6.7%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%
Employers/district	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2017 are as follows:

District contributions	\$ 4,592,732
Member contributions	10,525,385
NECE on-behalf contributions (state)	6,496,455

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

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

## Midland Independent School District

### Notes to the Financial Statements

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 school district or charter school does not contribute to the Federal Old-Age Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

#### Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2016
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Discount rate	8.00%
Long-term expected investment rate of return	8.00%
Inflation	2.50%
Municipal bond rate*	N/A*
Last year ending August 31 in the 2016 to 2015 projection period (100 years)	2115
Salary increases including inflation	3.50% to 9.50%
Payroll growth rate	2.50%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

\* If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.



**Midland Independent School District**  
Notes to the Financial Statements

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. 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 projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Teacher Retirement System of Texas  
Asset Allocation and long-Term Expected Real Rate of Return  
As of August 31, 2016

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global equity:			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value:			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real return:			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity:			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation	0.0%	0.0%	2.2%
Alpha	0.0%	0.0%	1.0%
<b>Totals</b>	<b>100.0%</b>		<b>8.7%</b>

\*The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

**Midland Independent School District**  
Notes to the Financial Statements

**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 (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
TRS	\$ 84,538,692	\$ 54,623,985	\$ 29,249,268

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension**

At August 31, 2017, the District reported a liability of \$54,623,985 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District 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 District were as follows:

District's proportionate share of the net pension liability	\$ 54,623,985
State's proportionate share of the net pension liability associated with the District	<u>81,609,959</u>
<b>Total</b>	<u><u>\$ 136,233,944</u></u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016, the employer's proportion of the collective net pension liability was .1445504% which was a decrease from .0143798% from its proportion measured as of August 31, 2015.

**Changes since the Prior Actuarial Valuation**

There were no changes in the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period

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

For the year ended August 31, 2017, the District recognized pension expense of \$3,469,130 and revenue of \$3,469,130 for support provided by the State.

**Midland Independent School District**  
Notes to the Financial Statements

At August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actuarial economic experience	\$ 856,485	\$ 1,631,024
Changes in actuarial assumptions	1,664,825	1,514,089
Net difference between projected and actual earnings on pension plan investments	4,625,400	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	9,159,188	2,308,205
District contribution after measurement date	4,593,362	-
<b>Totals</b>	<b>\$ 20,899,260</b>	<b>\$ 5,453,318</b>

The net amount of employee's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending August 31,	
2018	\$ 1,896,801
2019	1,896,801
2020	4,847,107
2021	1,670,127
2022	788,307
Thereafter	(246,563)
<b>Totals</b>	<b>\$ 10,852,580</b>

**H. School District Retiree Health Plan**

**Plan Description**

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority of the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at [www.trs.state.tx.us](http://www.trs.state.tx.us) under the TRS Publications heading, by calling the TRS Communications Department at 1-800-233-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

**Midland Independent School District**  
Notes to the Financial Statements

**Funding Policy**

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2017-2015.

Year	Contribution Rates and Amounts					
	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$ 888,506	1.00%	\$ 1,279,217	0.55%	\$ 751,813
2016	0.65%	\$ 927,284	1.00%	\$ 1,426,592	0.55%	\$ 784,625
2015	0.65%	\$ 922,089	1.00%	\$ 1,418,599	0.55%	\$ 780,229

**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, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$410,271, \$552,973, and \$606,386, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements.

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the State are on behalf of the District and have been recorded in the governmental funds' financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the state.

**I. Health Care Coverage**

The District sponsors a modified self-insurance plan to provide health care benefits to staff members and their dependents. Transactions related to the plan are accounted for in the Health Insurance Fund (the "Fund"), an internal service fund of the District. Partial staff member contributions are required for personal coverage and total staff member contributions are required for coverage of dependents. The District obtained excess loss insurance, which limited annual claims paid from the Fund for the year ended August 31, 2017, to \$150,000 for any individual participant and an aggregate limit equal to \$1,000,000. Estimates of claims payable and of claims incurred, but not reported at August 31, 2017, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due. The District does not provide any post-retirement health benefits to its employees. Unpaid claims are included in the internal service fund as accrued liabilities.

**Midland Independent School District**  
Notes to the Financial Statements

Changes in the balances of claims liabilities during the past year are as follows:

	Year Ended August 31, 2017
Unpaid claims, beginning of fiscal year	\$ 1,902,143
Incurred claims (including IBNR's and changes in provisions)	19,264,057
Claim payments	<u>(19,085,176)</u>
<b>Unpaid claims, end of fiscal year</b>	<b><u>\$ 2,081,024</u></b>

**J. Changes in Noncurrent Liabilities**

Long-term activity for the year ended August 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
<b>Bonds payable:</b>					
General obligation bonds	\$ 224,020,000	\$ 26,000,000	\$ (34,030,000)	\$ 215,990,000	\$ 7,155,000
Less deferred amounts:					
For issuance premium/discounts (CIB's)	<u>24,802,488</u>	<u>1,564,732</u>	<u>(4,522,226)</u>	<u>21,844,994</u>	<u>1,308,811</u>
Total bonds payable, net	248,822,488	27,564,732	(38,552,226)	237,834,994	8,463,811
Compensated absences	3,697,290	6,345	-	3,703,635	321,358
Net pension liability	<u>56,179,710</u>	<u>-</u>	<u>(1,555,725)</u>	<u>54,623,985</u>	<u>-</u>
<b>Governmental activities long-term liabilities</b>	<b><u>\$ 308,699,488</u></b>	<b><u>\$ 27,571,077</u></b>	<b><u>\$ (40,107,951)</u></b>	<b><u>\$ 296,162,614</u></b>	<b><u>\$ 8,785,169</u></b>

**K. Operating Leases**

The District leases copiers and other equipment under noncancelable 4 year operating leases. Total costs for such leases were \$656,024 for the year ended August 31, 2017. Effective September 1, 2016, the District entered into a new noncancelable 4-year operating lease. The future minimum lease payments for these leases are as follows:

Year Ending August 31,	
2018	\$ 261,186
2019	261,186
2020	256,275
2021	<u>147,071</u>
<b>Total minimum future lease payments</b>	<b><u>\$ 925,718</u></b>

**L. Unearned Revenue/Deferred Revenue**

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned (unearned revenues). As of August 31, 2017 the general fund had \$142,415 and total nonmajor funds had \$84,534 in unearned revenues.

**Midland Independent School District**  
Notes to the Financial Statements

**M. Receivables From Other Governments**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2016, are summarized below. All federal grants shown below are passed through the TEA and are reported on the basic financial statements as Due from Other Governments.

Fund	Description	
199	General Fund	\$ 3,876,831
240	Child Nutrition Cluster	157,438
211	ESEA Title I, Part A Improving Basic Programs	205,882
224	IDEA-Part B Formula	365,923
225	IDEA-Part B Preschool	2,572
242	Summer Feeding Program	9,649
244	Career & Technical Basic Grant	19,895
255	ESEA Title II, Part A Teacher & Principal Training & Recruiting	211,381
263	Title III, Part A English Language Acquisition & Enhancement	24,270
296	Title I, Priority & Focus	69,787
410	State Textbook Fund	2,595,387
429	High Quality Pre-K	16,225
<b>Total receivables from other governments</b>		<b>\$ 7,555,240</b>

**N. Revenue from Local and Intermediate Sources**

During the current year, revenues from local and intermediate sources consisted of the following:

	General	National School Breakfast/Lunch Program	Debt Service	Capital Projects	Nonmajor Governmental	Total
Property taxes	\$ 192,803,923	\$ -	\$ 14,849,644	\$ -	\$ -	\$ 207,653,567
Penalties, interest, and other tax-related	529,017	-	-	-	-	529,017
Investment income	431,614	75,099	43,652	28,956	-	579,321
Food sales	-	2,956,987	-	-	-	2,956,987
Co-curricular/extra-curricular student act	427,038	-	-	-	-	427,038
Gifts and bequests	11,037,924	-	-	-	130,590	11,168,514
Insurance recoveries	902,025	-	-	-	-	902,025
Oil and gas leases	1,799,008	-	-	-	-	1,799,008
Other	1,129,411	113	16,577	-	1,179	1,147,280
<b>Total</b>	<b>\$ 209,059,960</b>	<b>\$ 3,032,199</b>	<b>\$ 14,909,873</b>	<b>\$ 28,956</b>	<b>\$ 131,769</b>	<b>\$ 227,162,757</b>

**O. Contingent Liabilities**

The District participates in numerous federally funded programs, on both a direct and state pass-through basis, as well as on a service-provider basis. In connection with these grants, the District is required to comply with specific terms and agreements, as well as applicable federal and state laws and regulations. Such compliance is subject to review and audit by the grantors and their representatives, including audits under uniform guidance and compliance examinations which build upon such audits.

In the opinion of management, the District has materially complied with all requirements. However, since such programs are subject to future audit or review, the possibility of disallowed expenditures exists. In the event of such disallowance of claimed expenditures, the District does not expect the resulting liability to have a material adverse effect on its basic financial statements at August 31, 2017.

**Midland Independent School District**  
Notes to the Financial Statements

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not determinable presently, in the opinion of the District's counsel, the resolution of these matters will not have a material adverse effect on the financial statements of the District.

**P. Construction Commitments**

The District passed a \$163,110,000 bond authorization on November 6, 2012. The authorization included equipment, building renovations, new elementary construction and land purchases. Contracts for the renovations and new construction were completed in 2016. Construction in progress at August 31, 2017 in the amount of \$1,042,879 is related to roof repair construction due to hail damage incurred in the current fiscal year. The below schedule shows the remaining commitment for this project which is included in the capital projects fund restricted capital acquisitions and contractual obligations fund balance.

<u>Project</u>	<u>Remaining Commitment</u>
Roof repairs	\$ 256,033
<b>Totals</b>	<b>\$ 256,033</b>

**Q. Maintenance of Effort**

For fully insured districts/entities/risk pools, enter the total amount paid by the district for employee health care premiums as reported to TEA per Note I:

a) Total District Premium paid for health care 2016-17	\$11,645,593
b) Subtract any non-medical expenditures Life Insurance	(26,346)
c) 2015-16 Maintenance of Effort	\$11,619,247

Self-insured Districts/Entities/Risk Pools: TEA will permit a self-insured district to include in (b) a deduction for any individual one-time high cost claims from the total cost. Claims must be documented and considered an extraordinary, catastrophic expense (i.e., not covered by stop loss).

**R. Employee Defined Contribution Plan**

The District sponsors a 401(a) plan for the benefit of its employees. The plan provides for discretionary monthly contributions up to the maximum of 3.0%. The percentage contributed by the District is determined annually by the Board of Trustees. Participants begin to vest in benefits after 3 years and become fully vested after 5 years. Participants are 100% vested in their personal contributions at all times. At August 31, 2017, 924 employees participated in the plan. The Board of Trustees did not authorize a discretionary contribution for the year ended August 31, 2017.

**S. Worker's Compensation**

GASB 10 requires that state and local governmental entities other than public entity risk pools are required to report an estimated loss from a claim as an expenditure/expense and as a liability if both of these conditions are met: a) Information available before the financial statements are issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will also occur, confirming the fact of the loss. b) The amount of the loss can be reasonably estimated.

## Midland Independent School District

### Notes to the Financial Statements

Beginning in 1997, the District changed from a self-funded worker's compensation plan to an outside provider for their worker's compensation coverage. The District remains liable for claims incurred prior to August 31, 1997 under the self-funded plan. These run-off claims amount to approximately \$198,746 and are included in the total accrued liabilities. The District remained fully-insured until March of 2001, at which time the District established its current self-funded program. The District has since maintained a self-insured retention of \$200,000 per occurrence. The District currently purchases excess coverage to statutory limits from the Texas Association of School Boards. The District does not purchase aggregate excess insurance. Claims administration is provided by the Texas Association of School Boards.

At August 31, 2017, the accrued liabilities for worker's compensation self-insurance of \$1,703,548 includes estimated incurred but not reported claims, and is included in accrued expense liability.

	Year Ended August 31, 2017
Unpaid claims, beginning of fiscal year	\$ 1,568,180
Incurred claims (including IBNR's and changes in provisions)	922,648
Claim payments	<u>(787,280)</u>
<b>Unpaid claims, end of fiscal year</b>	<b><u>\$ 1,703,548</u></b>

The Texas Association of School Board administers the District workers compensation program. As part of that contract a certified actuary has reviewed the District's estimated liability for workers compensation. The result of that actuarial review allows the District to reduce the estimated liability that had been previously accrued.

#### T. New Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for financial statements for reporting periods beginning after June 15, 2017.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for periods beginning after December 15, 2016.

In March 2016, GASB issued Statement No. 82: *Pension Issues – an amendment of GASB Statements No. 67, No.68, and No. 73*. This Statement addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.



## **Midland Independent School District**

### **Notes to the Financial Statements**

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Statement No. 87 Leases – The objectives of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease account based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 31, 2020.

The District's management is reviewing the implementation process of this these standards by gathering required information.

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## **Required Supplementary Information**

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**Midland Independent School District**  
**Required Supplementary Information**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balance – Budget and Actual**  
**For the Fiscal Year Ended August 31, 2017**

**Exhibit G-1**

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
<b>REVENUES</b>					
5700	Local and intermediate revenues	\$ 213,325,384	\$ 211,762,605	\$ 209,059,960	\$ (2,702,645)
5800	State program revenues	14,349,860	17,987,365	19,542,875	1,555,510
5900	Federal program revenues	2,400,000	2,044,609	2,539,273	494,664
5020	Total revenues	230,075,244	231,794,579	231,142,108	(652,471)
<b>EXPENDITURES</b>					
Current:					
0011	Instruction	105,951,583	113,990,014	112,719,107	1,270,907
0012	Instructional resources and media services	2,346,749	2,222,806	2,128,626	94,180
0013	Curriculum and instructional staff development	6,921,306	3,792,834	3,176,512	616,322
0021	Instructional leadership	2,989,731	3,224,219	3,057,557	166,662
0023	School leadership	11,679,069	11,761,433	11,678,462	82,971
0031	Guidance, counseling, and evaluation services	6,363,837	6,317,170	6,183,225	133,945
0032	Social work services	261,472	330,522	255,109	75,413
0033	Health services	2,229,435	2,171,466	2,079,715	91,751
0034	Student transportation	6,501,456	6,942,285	6,113,871	828,414
0036	Extracurricular activities	4,048,909	4,255,351	3,911,366	343,985
0041	General administration	5,871,038	6,433,572	4,009,435	2,424,137
0051	Plant maintenance and operations	17,254,768	21,471,706	20,239,382	1,232,324
0052	Security and monitoring services	1,541,066	1,453,923	1,261,458	192,465
0053	Data processing services	4,240,236	4,374,370	4,236,305	138,065
0061	Community services	265,157	339,025	290,098	48,927
Intergovernmental:					
0091	Contracted instructional services between schools	53,794,904	48,302,530	45,806,661	2,495,869
0093	Payments related to shared service arrangements	130,000	156,500	156,500	-
0099	Other intergovernmental charges	-	-	1,467,585	(1,467,585)
6030	Total expenditures	232,390,716	237,539,726	228,770,974	8,768,752
1100	(Deficiency) excess of revenues (under) over expenditures	(2,315,472)	(5,745,147)	2,371,134	8,116,281
<b>OTHER FINANCING SOURCES (USES)</b>					
7915	Transfers in	-	-	-	-
8911	Transfers out	-	-	(1,500,000)	(1,500,000)
7080	Total other financing sources (uses)	-	-	(1,500,000)	(1,500,000)
1200	Net change in fund balance	(2,315,472)	(5,745,147)	871,134	6,616,281
0100	Fund balance - beginning	41,905,685	41,905,685	41,905,685	-
3000	<b>FUND BALANCE - ENDING</b>	<b>\$ 39,590,213</b>	<b>\$ 36,160,538</b>	<b>\$ 42,776,819</b>	<b>\$ 6,616,281</b>

The Notes to the Required Supplementary Information are an integral part of this statement.

**Midland Independent School District****Exhibit G-2**

Required Supplementary Information  
 Schedule of the District's Proportionate Share of the Net Pension Liability  
 of a Cost-Sharing Multiple-Employer Pension Plan  
 Teacher Retirement System of Texas  
 For the Last Three Fiscal Years\*

	<u>2017</u>	<u>2016</u>
District's proportion of the net pension liability	0.1445504%	0.1589302%
District's proportionate share of the net pension liability	\$ 54,623,985	\$ 56,179,170
State's proportionate share of the net pension liability associated with the District	<u>81,609,959</u>	<u>78,651,973</u>
<b>TOTALS</b>	<u>\$ 136,233,944</u>	<u>\$ 134,831,143</u>
District's covered-employee payroll	\$ 142,659,151	\$ 141,859,865
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	38.29%	39.60%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%

\* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year.  
 Ten years of data is not available.

**Midland Independent School District**  
 Required Supplementary Information  
 Schedule of the District's Contributions to the  
 Teacher Retirement System of Texas Pension Plan  
 For the Last Three Fiscal Years\*

**Exhibit G-3**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>TRS</b>			
Contractually required contributions	\$ 9,090,105	\$ 9,486,833	\$ 9,433,681
Contributions in relation to the contractually Required contributions	<u>(9,090,105)</u>	<u>(9,486,833)</u>	<u>(9,433,681)</u>
<b>CONTRIBUTION DEFICIENCY (EXCESS)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 136,693,306	\$ 142,659,151	\$ 141,859,865
Contributions as a percentage of covered- employee payroll	6.65%	6.65%	6.65%

\* The amounts presented for the fiscal years were determined as of the District's fiscal year end August 31.  
 Ten years of data is not available.

**Midland Independent School District**  
Notes to the Required Supplementary Information

**Note 1. Budget**

**A. Budgetary Information**

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

The following procedures are followed in establishing the budgetary data reflected in the fund financial schedules:

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year end.

Function 0099 other intergovernmental charges represents tax appraisal fees that were properly budgeted for in function 0041 general administration. Transfers out represent transfers from the general fund to the national school breakfast / lunch program, this transfer was not budgeted for in the current period.

**Note 2. Pension**

**TRS – Actuarial Assumptions for Contribution Rate**

Actuarial Assumptions – The information presented in the following table was used in the actuarial valuation for determining the actuarially determined contribution rate. The assumptions are as follows:

Valuation date	August 31, 2016
Actuarial cost method	Ultimate entry age normal
Amortization method	Level percentage of payroll, Floating
Remaining amortization period	33 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Investment rate of return	8.00%
Ad hoc post-employment benefit changes	None
Benefit changes during the year	None

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## **Supplementary Information**

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**Midland Independent School District**  
 Combining Balance Sheet  
 Nonmajor Governmental Funds – Special Revenue Funds  
 August 31, 2017

		211	224	225
<u>Data Control Codes</u>		<u>ESEA Title I, Part A - Improving Basic Programs</u>	<u>IDEA-Part B Formula</u>	<u>IDEA-Part B Preschool</u>
<b>ASSETS</b>				
1110	Cash and cash equivalents	\$ 2,914	\$ 5,886	\$ -
1240	Due from other governments	205,882	365,923	2,572
1260	Due from other funds	157,870	234,991	-
1000	<b>TOTAL ASSETS</b>	<u>\$ 366,666</u>	<u>\$ 606,800</u>	<u>\$ 2,572</u>
<b>LIABILITIES</b>				
2110	Accounts payable	\$ 41,833	\$ 19,355	\$ -
2160	Accrued wages payable	124,777	231,876	1,190
2170	Due to other funds	200,056	355,569	1,382
2300	Unearned revenue	-	-	-
2000	Total liabilities	366,666	606,800	2,572
<b>FUND BALANCES</b>				
3450	Restricted - grants	-	-	-
	Total fund balances	-	-	-
<b>TOTAL LIABILITIES AND FUND BALANCES</b>		<u>\$ 366,666</u>	<u>\$ 606,800</u>	<u>\$ 2,572</u>

**Exhibit H-1**  
(Page 1 of 2)

242	244	255	263	272
Summer Feeding Program	Career & Technical Basic Grant	ESEA Title II, Part A.; Teacher & Principal Training & Recruiting	Title III, Part A English Language Acquisition & Enhancement	Medical Assistance Program
\$ 129,850	\$ -	\$ -	\$ -	\$ -
9,649	19,895	211,381	24,270	-
-	13,891	31,577	26,817	44,072
<u>\$ 139,499</u>	<u>\$ 33,786</u>	<u>\$ 242,958</u>	<u>\$ 51,087</u>	<u>\$ 44,072</u>
\$ 3,727	\$ 2,692	\$ 196,000	\$ -	\$ -
-	7,234	11,458	-	-
24,414	23,860	35,500	51,087	-
-	-	-	-	-
28,141	33,786	242,958	51,087	-
111,358	-	-	-	44,072
111,358	-	-	-	44,072
<u>\$ 139,499</u>	<u>\$ 33,786</u>	<u>\$ 242,958</u>	<u>\$ 51,087</u>	<u>\$ 44,072</u>

**Midland Independent School District**  
Combining Balance Sheet  
Nonmajor Governmental Funds – Special Revenue Funds – Continued  
August 31, 2017

<u>Data Control Codes</u>	<b>289</b>	<b>296</b>	<b>396</b>
	<u>Title VI Summer School L.E.P.</u>	<u>Title I, Priority &amp; Focus</u>	<u>Advanced Placement Testing</u>
<b>ASSETS</b>			
1110 Cash and cash equivalents	\$ 9,319	\$ 11,057	\$ 60,137
1240 Due from other governments	-	69,787	-
1260 Due from other funds	-	43,533	-
1000 <b>TOTAL ASSETS</b>	<u>\$ 9,319</u>	<u>\$ 124,377</u>	<u>\$ 60,137</u>
<b>LIABILITIES</b>			
2110 Accounts payable	\$ -	\$ 18,383	\$ 1,620
2160 Accrued wages payable	-	-	-
2170 Due to other funds	9,319	105,994	(7,060)
2300 Unearned revenue	-	-	65,577
2000 Total liabilities	9,319	124,377	60,137
<b>FUND BALANCES</b>			
3450 Restricted - grants	-	-	-
Total fund balances	-	-	-
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 9,319</u>	<u>\$ 124,377</u>	<u>\$ 60,137</u>

**Exhibit H-1**  
(Page 2 of 2)

405	410	427	429	499	Total Nonmajor Governmental Funds (See Exhibit C-1)
ESC Gifted and Talented	State Textbook Fund	Read to Succeed	High Quality Pre-K	Other Local Special Revenue Funds	
\$ -	\$ 288,759	\$ 6,300	\$ 1,061	\$ 111,848	\$ 627,131
-	2,595,387	-	16,225	-	3,520,971
-	2,675	7,700	-	-	563,126
<u>\$ -</u>	<u>\$ 2,886,821</u>	<u>\$ 14,000</u>	<u>\$ 17,286</u>	<u>\$ 111,848</u>	<u>\$ 4,711,228</u>
\$ -	\$ 90,463	\$ -	\$ 145	\$ -	\$ 374,218
-	-	-	-	2,363	378,898
-	2,796,358	5,600	17,141	101,291	3,720,511
-	-	8,400	-	10,557	84,534
-	2,886,821	14,000	17,286	114,211	4,558,161
-	-	-	-	(2,363)	153,067
-	-	-	-	(2,363)	153,067
<u>\$ -</u>	<u>\$ 2,886,821</u>	<u>\$ 14,000</u>	<u>\$ 17,286</u>	<u>\$ 111,848</u>	<u>\$ 4,711,228</u>

**Midland Independent School District**

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Governmental Funds – Special Revenue Funds  
For the Fiscal Year Ended August 31, 2017

	211	224	225
<b>Data Control Codes</b>	<b>ESEA Title I, Part A - Improving Basic Programs</b>	<b>IDEA-Part B Formula</b>	<b>IDEA-Part B Preschool</b>
<b>REVENUES</b>			
5700 Local and intermediate revenues	\$ -	\$ -	\$ -
5800 State program revenues	-	-	-
5900 Federal program revenues	3,873,771	3,522,818	22,930
5020 Total revenues	3,873,771	3,522,818	22,930
<b>EXPENDITURES</b>			
Current:			
0011 Instruction	2,282,070	1,842,465	22,930
0012 Instructional resources and media services	1,156	-	-
0013 Curriculum and instructional staff development	1,349,937	69,624	-
0021 Instructional leadership	50,953	149,453	-
0023 School leadership	38,092	-	-
0031 Guidance, counseling, and evaluation services	-	1,342,056	-
0034 Student transportation	-	119,220	-
0035 Food service	-	-	-
0041 General administration	-	-	-
0061 Community services	151,563	-	-
6030 Total expenditures	3,873,771	3,522,818	22,930
1100 Excess (deficiency) of revenues over (under) expenditures	-	-	-
1200 Net change in fund balances	-	-	-
0100 Fund balances - beginning	-	-	-
<b>3000 FUND BALANCES - ENDING</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

242	244	255	263	272
Summer Feeding Program	Career & Technical Basic Grant	ESEA Title II, Part A.; Teacher & Principal Training & Recruiting	Title III, Part A English Language Acquisition & Enhancement	Medical Assistance Program
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
71,390	211,688	759,928	380,370	44,072
71,390	211,688	759,928	380,370	44,072
-	135,891	113,241	113,864	-
-	-	-	-	-
-	-	301,086	250,024	-
-	426	228,316	9,169	-
-	-	113,654	-	-
-	75,371	-	-	-
-	-	-	-	-
42,204	-	-	-	-
-	-	3,631	-	-
-	-	-	7,313	-
42,204	211,688	759,928	380,370	-
29,186	-	-	-	44,072
29,186	-	-	-	44,072
82,172	-	-	-	-
\$ 111,358	\$ -	\$ -	\$ -	\$ 44,072

**Midland Independent School District**

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances

Nonmajor Governmental Funds – Special Revenue Funds – Continued  
For the Fiscal Year Ended August 31, 2017

		289	296	396
Data Control Codes		Title VI Summer School L.E.P.	Title I, Priority & Focus	Advanced Placement Testing
<b>REVENUES</b>				
5700	Local and intermediate revenues	\$ -	\$ -	\$ -
5800	State program revenues	-	-	15,123
5900	Federal program revenues	9,319	1,155,977	-
5020	Total revenues	9,319	1,155,977	15,123
<b>EXPENDITURES</b>				
Current:				
0011	Instruction	9,319	536,902	-
0012	Instructional resources and media services	-	-	-
0013	Curriculum and instructional staff development	-	593,737	15,123
0021	Instructional leadership	-	(2,226)	-
0023	School leadership	-	10,399	-
0031	Guidance, counseling, and evaluation services	-	-	-
0034	Student transportation	-	-	-
0035	Food service	-	-	-
0041	General administration	-	-	-
0061	Community services	-	17,165	-
6030	Total expenditures	9,319	1,155,977	15,123
1100	Excess (deficiency) of revenues over (under) expenditures	-	-	-
1200	Net change in fund balances	-	-	-
0100	Fund balances - beginning	-	-	-
3000	<b>FUND BALANCES - ENDING</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>



405	410	427	429	499	Total Nonmajor Governmental Funds (See Exhibit C-2)
ESC Gifted and Talented	State Textbook Fund	Read to Succeed	High Quality Pre- K	Other Local Special Revenue Funds	
\$ 27,850	\$ -	\$ -	\$ -	\$ 103,919	\$ 131,769
-	788,542	13,300	405,210	-	1,222,175
-	-	-	-	-	10,052,263
<u>27,850</u>	<u>788,542</u>	<u>13,300</u>	<u>405,210</u>	<u>103,919</u>	<u>11,406,207</u>
27,850	343,742	-	306,104	30,540	5,764,918
-	-	-	71,640	-	72,796
-	444,800	13,300	17,517	4,469	3,059,617
-	-	-	-	-	436,091
-	-	-	-	-	162,145
-	-	-	-	74,563	1,491,990
-	-	-	-	-	119,220
-	-	-	-	1,179	43,383
-	-	-	-	-	3,631
-	-	-	9,949	-	185,990
<u>27,850</u>	<u>788,542</u>	<u>13,300</u>	<u>405,210</u>	<u>110,751</u>	<u>11,339,781</u>
-	-	-	-	(6,832)	66,426
-	-	-	-	(6,832)	66,426
-	-	-	-	4,469	86,641
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,363)</u>	<u>\$ 153,067</u>

**Midland Independent School District**  
Combining Statement of Net Position  
Internal Service Funds  
August 31, 2017

**Exhibit I-1**

<b>Data Control Codes</b>	<b>751 Employee Housing Fund</b>	<b>753 Self Insurance Fund</b>	<b>Total Internal Service Funds</b>
<b>ASSETS</b>			
Current assets:			
1110	\$ 255,637	\$ 155,921	\$ 411,558
1120	-	293,667	293,667
1260	-	16,821	16,821
1410	-	116,906	116,906
	<u>255,637</u>	<u>583,315</u>	<u>838,952</u>
Noncurrent assets:			
1520	687,042	-	687,042
	<u>687,042</u>	<u>-</u>	<u>687,042</u>
1000	942,679	583,315	1,525,994
<b>LIABILITIES</b>			
Current liabilities:			
2110	-	987,120	987,120
2170	-	378,335	378,335
2200	-	3,784,572	3,784,572
	<u>-</u>	<u>5,150,027</u>	<u>5,150,027</u>
2000	<u>-</u>	<u>5,150,027</u>	<u>5,150,027</u>
<b>NET POSITION</b>			
3200	687,042	-	687,042
3900	255,637	(4,566,712)	(4,311,075)
3000	<u>\$ 942,679</u>	<u>\$ (4,566,712)</u>	<u>\$ (3,624,033)</u>

**Midland Independent School District**  
Combining Statement of Revenues, Expense  
and Changes in Net Position  
Internal Service Funds  
For the Fiscal Year Ended August 31, 2017

**Exhibit I-2**

<u>Data Control Codes</u>	<u>751 Employee Housing Fund</u>	<u>753 Self Insurance Fund</u>	<u>Total Internal Service Funds</u>
<b>OPERATING REVENUES</b>			
5700 Local and intermediate revenues	\$ 179,351	\$ 19,893,426	\$ 20,072,777
5020 Total revenues	179,351	19,893,426	20,072,777
<b>OPERATING EXPENSES</b>			
6200 Professional and contracted services	84,649	268,603	353,252
6300 Supplies and materials	386	1,295	1,681
6400 Other operating costs	28,827	23,399,208	23,428,035
6030 Total expenses	113,862	23,669,106	23,782,968
Operating income (loss)	65,489	(3,775,680)	(3,710,191)
<b>NON-OPERATING REVENUES</b>			
7955 Earnings from temp. deposits and investments	-	7,584	7,584
8030 Total non-operating revenues	-	7,584	7,584
1300 Change in net position	65,489	(3,768,096)	(3,702,607)
0100 Net position - beginning	877,190	(798,616)	78,574
3300 <b>NET POSITION - ENDING</b>	<u>\$ 942,679</u>	<u>\$ (4,566,712)</u>	<u>\$ (3,624,033)</u>

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**Midland Independent School District**  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Fiscal Year Ended August 31, 2017

**Exhibit I-3**

	751	753	Total
	Employee Housing Fund	Self Insurance Fund	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from quasi-external operating activities	\$ 179,863	\$ 22,170,238	\$ 22,350,101
Cash payments to suppliers for goods and benefits	(85,546)	(24,053,333)	(24,138,879)
Net cash provided by (used in) operating activities	94,317	(1,883,095)	(1,788,778)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends received on investments	-	7,584	7,584
Sale of investments	-	1,793,069	1,793,069
Net cash provided by investing activities	-	1,800,653	1,800,653
Net increase (decrease) in cash and cash equivalents	94,317	(82,442)	11,875
Cash and cash equivalents at beginning of year	161,321	238,362	399,683
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>\$ 255,638</b>	<b>\$ 155,920</b>	<b>\$ 411,558</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 65,489	\$ (3,775,680)	\$ (3,710,191)
Depreciation	28,828	-	28,828
Change in assets and liabilities:			
Decrease in due from other funds	-	413,625	413,625
Increase in prepaid insurance	-	(116,906)	(116,906)
Increase in accounts payable	-	903,282	903,282
Increase in due to other funds	-	378,335	378,335
Increase in payable from restricted assets	-	314,249	314,249
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 94,317</b>	<b>\$ (1,883,095)</b>	<b>\$ (1,788,778)</b>

**Midland Independent School District**  
 Schedule of Delinquent Taxes Receivable  
 For the Fiscal Year Ended August 31, 2017

<u>Year Ended August 31,</u>	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	<u>Maintenance</u>		<u>Debt Service</u>			
2008 and prior years	\$	Various	\$	Various	\$	Various
2009		1.040050		0.1125		9,622,129,854
2010		1.040050		0.1050		10,221,439,879
2011		1.040050		0.1010		10,879,019,756
2012		1.040050		0.1000		11,235,065,718
2013		1.040050		0.0900		14,698,146,126
2014		1.040050		0.1000		14,782,675,318
2015		1.040050		0.1000		19,292,108,478
2016		1.040050		0.1000		20,127,433,487
2017 (School year under audit)		1.040050		0.0800		18,996,101,877

**1000 TOTALS**

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

Exhibit J-1

<b>10</b>	<b>20</b>	<b>31</b>	<b>32</b>	<b>40</b>	<b>50</b>
<b>Beginning</b>	<b>Current</b>	<b>Maintenance</b>	<b>Debt Service</b>	<b>Entire</b>	<b>Ending</b>
<b>Balance</b>	<b>Year's</b>	<b>Collections</b>	<b>Collections</b>	<b>Year's</b>	<b>Balance</b>
<b>9/1/16</b>	<b>Total Levy</b>			<b>Adjustments</b>	<b>8/31/17</b>
\$ 212,747	\$ -	\$ 12,301	\$ 1,537	\$ (48,678)	\$ 150,231
69,913	-	3,628	392	(12)	65,881
65,586	-	6,217	628	(9)	58,732
77,083	-	10,932	1,061	(778)	64,312
95,867	-	18,576	1,786	(45)	75,460
280,965	-	58,896	5,094	38,715	255,690
426,967	-	110,404	10,613	29,630	335,580
800,387	-	252,633	24,286	(12,312)	511,156
3,304,768	-	1,632,525	156,936	(333,507)	1,181,800
-	207,590,188	188,135,210	14,465,703	(1,073,454)	3,915,821
<u>\$ 5,334,283</u>	<u>\$ 207,590,188</u>	<u>\$ 190,241,322</u>	<u>\$ 14,668,036</u>	<u>\$ (1,400,450)</u>	<u>\$ 6,614,663</u>
		\$ -	\$ -		

**Midland Independent School District**  
 Schedule of Revenues, Expenditures, and Changes  
 in Fund Balance – Budget and Actual  
 National School Breakfast and Lunch Program  
 For the Fiscal Year Ended August 31, 2017

**Exhibit J-2**

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
<b>REVENUES</b>					
5700	Local and intermediate revenues	\$ 4,029,309	\$ 2,965,273	\$ 3,032,199	\$ 66,926
5800	State program revenues	58,817	58,645	58,646	1
5900	Federal program revenues	8,085,550	8,724,236	8,624,251	(99,985)
5020	Total revenues	12,173,676	11,748,154	11,715,096	(33,058)
<b>EXPENDITURES</b>					
Current:					
Support services - student (pupil):					
0035	Food service	12,173,676	12,173,676	11,774,905	398,771
	Total support services - student (pupil)	12,173,676	12,173,676	11,774,905	398,771
6030	Total expenditures	12,173,676	12,173,676	11,774,905	398,771
1100	(Deficiency) excess of revenues (under) over expenditures	-	(425,522)	(59,809)	365,713
<b>OTHER FINANCING SOURCES (USES)</b>					
7915	Transfers in	-	-	1,500,000	1,500,000
7080	Total other financing sources (uses)	-	-	1,500,000	1,500,000
1200	Net change in fund balance	-	(425,522)	1,440,191	1,865,713
0100	Fund balance - beginning	1,541,751	1,541,751	1,541,751	-
3000	<b>FUND BALANCE - ENDING</b>	<b>\$ 1,541,751</b>	<b>\$ 1,116,229</b>	<b>\$ 2,981,942</b>	<b>\$ 1,865,713</b>



**Midland Independent School District**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balance – Budget and Actual**  
**Debt Service Fund**  
**For the Fiscal Year Ended August 31, 2017**

**Exhibit J-3**

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
<b>REVENUES</b>					
5700	Local and intermediate revenues	\$ 15,036,763	\$ 14,860,371	\$ 14,909,873	\$ 49,502
5800	State program revenues	194,996	229,382	229,382	-
5020	Total revenues	15,231,759	15,089,753	15,139,255	49,502
<b>EXPENDITURES</b>					
Debt service:					
0071	Principal on long-term debt	17,199,350	17,199,350	7,190,000	10,009,350
0072	Interest on long-term debt	-	-	9,575,314	(9,575,314)
0073	Issuance costs and fees	-	-	320,778	(320,778)
	Total debt service	17,199,350	17,199,350	17,086,092	113,258
6030	Total expenditures	17,199,350	17,199,350	17,086,092	113,258
1100	(Deficiency) excess of revenues (under) over expenditures	(1,967,591)	(2,109,597)	(1,946,837)	162,760
<b>OTHER FINANCING SOURCES (USES)</b>					
7901	Refunding bonds issued	-	-	26,000,000	26,000,000
7916	Premium or (discount) on issuance of bonds	-	-	1,564,732	1,564,732
8940	Payment to refunded bonds escrow agent	-	-	(27,231,417)	(27,231,417)
7080	Total other financing sources (uses)	-	-	333,315	333,315
1200	Net change in fund balance	(1,967,591)	(2,109,597)	(1,613,522)	496,075
0100	Fund balance - beginning	4,190,832	4,190,832	4,190,832	-
3000	<b>FUND BALANCE - ENDING</b>	<b>\$ 2,223,241</b>	<b>\$ 2,081,235</b>	<b>\$ 2,577,310</b>	<b>\$ 496,075</b>

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**Overall Compliance, Internal Control Section  
and Federal Awards**

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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**

The Board of Trustees of  
Midland Independent School District  
615 West Missouri  
Midland, Texas 79701

We have audited, 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, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Midland Independent School District (the District) as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 16, 2018.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board of Trustees of  
Midland Independent School District

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Midland, Texas  
January 16, 2018



## **Independent Auditor's Report on Compliance for Major Federal Program and Report on Internal Control over Compliance in Accordance with Uniform Guidance**

The Board of Trustees of  
Midland Independent School District  
615 West Missouri  
Midland, Texas 79701

### **Report on Compliance for Each Major Federal Program**

We have audited Midland Independent School District's (the District) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

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

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

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

### **Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Midland, Texas  
January 16, 2018



**Midland Independent School District**  
 Schedule of Findings and Questioned Costs  
 For the Fiscal Year Ended August 31, 2017

**Section 1. Summary of Auditor's Results**

**Financial Statements**

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported

An unmodified opinion was issued on compliance for major programs

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
--	------------------------------	--

Identification of Major Programs:

84.027A – Special Education Grants to States  
 84.173A – Special Education Preschool Grants  
 84.367A – Supporting Effective Instruction State Grants

Dollar threshold used to distinguish between type A and type B federal programs	<u>\$750,000</u>
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Auditee qualified as a low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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**Midland Independent School District**  
Schedule of Findings and Questioned Costs – Continued  
For the Fiscal Year Ended August 31, 2017

**Section 2. Financial Statement Findings**

None

**Section 3. Federal Awards Findings**

None

**Section 4. Schedule of Prior Audit Findings and Questioned Costs**

None

**Section 5. Status of Prior Year Findings**

None

**Midland Independent School District**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended August 31, 2017**

**Exhibit K-1**

<b>Fund Number</b>	<b>Federal Grantor/ Pass Through Grantor Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
Passed - Through Texas Department of Education				
Child Nutrition Cluster:				
240	National School Breakfast Program	10.553	71401701	\$ 2,677,808
240	National School Lunch Program - Cash Assistance	10.555	71301701	5,708,391
240	National School Lunch Program - Noncash Assistance	10.555	71301701	738,052
242	Summer Food Service Program for Children	10.559	081085391	71,390
Total Child Nutrition Cluster				<u>9,195,641</u>
<b>Total U.S. Department of Agriculture</b>				<u>9,195,641</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
Passed - Through Texas Education Agency				
Title I Grants to Local Education Agencies				
211	Title I, Part A - Improving Basic Programs (211)	84.010A	17610101165901	3,921,734
296	Title I, 1003(A), Priority and Focus School Grant (296)	84.010A	17610112165901000	1,179,960
Total Title I Grants to Local Educational Agencies				5,101,694
Special Education Cluster (IDEA):				
224	Special Education Grants to States (224)	84.027A	176600011659016600	3,587,922
225	Special Education Preschool Grants (225)	84.173A	176610011659016610	22,930
Total Special Education Cluster (IDEA)				3,610,852
English Language Acquisition State Grants				
263	Title III, Part A - LEP (263)	84.365A	17671001165901	318,838
288	Title III, Part A - Immigrant (288)	84.365A	17671003165901	66,126
Total English Language Acquisition State Grants				384,964
244	Career and Technical Education – Basic Grants to States (244)	84.048A	17420006165901	211,688
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) (255)				
255		84.367A	17694501165901	772,493
289	Grants for State Assessments and Related Activities (289)	84.369A	69551602	9,319
<b>Total U.S. Department of Education</b>				<u>10,091,010</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
Passed - Through Texas Health and Human Services				
272	Medical Assistance Program (Medicaid; Title XIX) (272005932)	93.778	529-07-0157-00087	44,072
<b>Total U.S. Department of Health and Human Services</b>				<u>44,072</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>\$ 19,330,723</u>

## Midland Independent School District

Notes to the Schedule of Expenditures of Federal Awards

August 31, 2017

### Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Midland Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Single Audit Act Amendments of 1996 and *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The District has elected not to use the 10% de minimis indirect cost rates as allowed under *Uniform Guidance*. Presented below is a reconciliation of federal revenues:

Total expenditures of federal awards per Exhibit K-1	\$ 19,330,723
<b>General fund - federal revenue</b>	
School Health and Related Services (SHARS)	1,758,238
Air Force JROTC	<u>126,826</u>
<b>Total federal revenues per Exhibit C-3</b>	<b><u>\$ 21,215,787</u></b>

### Note 2. Basis of Funding

The District participates in numerous state and federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2017, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions has been recorded in the accompanying financial statements for such contingencies. Generally, unused balances are returned to the grantor at the close of specified project periods.

### Note 3. Food Donation

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the commodities received and disbursed. As of August 31, 2017, the District recognized food commodities totaling \$738,052 with a remaining \$86,122 in inventory.

**Midland Independent School District**  
 Schedule of Required Responses to  
 Selected School First Indicators (Unaudited)  
 August 31, 2017

**Exhibit L-1**

<u>Data Control Codes</u>	<u>Responses</u>
SF2 Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4 Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6 Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7 Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8 Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10 Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end?	\$ -
SF11 Net pension assets (1920) at fiscal year-end.	\$ -
SF12 Net pension liabilities (2540) at fiscal year-end.	\$ 54,623,985
SF13 Pension expense (6147) at fiscal year-end, excluding on-behalf pension expense (6144).	\$ 3,469,130