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MIDLAND INDEPENDENT SCHOOL DISTRICT

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ANNUAL FINANCIAL REPORT

for year ended
August 31, 2002

OUR FUTURE IS EVEN BRIGHTER!

MIDLAND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2002

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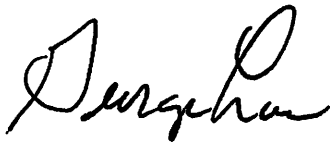
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CERTIFICATE OF BOARD

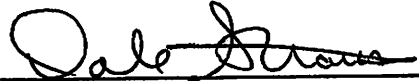
Midland Independent School District
Midland County

Co.-Dist. Number - 165901

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 year ended August 31, 2002 at a meeting of the Board of Trustees of such school district on the 4th day of February, 2003.



Signature of Board Secretary



Signature of Board President

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ELMS, FARIS & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, 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, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on them 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Midland Independent School District as of August 31, 2002, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the budgetary comparison information on pages 3 through 8 and 47 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements.

In addition, the combining statements and the TEA required schedules listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. The combining statements and the TEA required schedules (except for Exhibit J-3, The Fund Balance and Cash Flow Calculation Worksheet, which is marked UNAUDITED and on which we express no opinion) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Elms, Faris & Company, LLP

Midland, Texas
January 13, 2003

**Management's Discussion and Analysis
Midland Independent School District**

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Midland Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2002. Please read it in conjunction with the District's Basic Financial Statements, which follows this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies. Their primary purpose is to show whether the District is better off or worse off as a result of the year's activities.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the

costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

- **Governmental funds**—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

- **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 Assets and the Statement of Activities. The internal service fund reports activities that provide supplies and services for the District's self-insurance program.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District implemented GASB Statement #34 this year. We did not present net asset measurements in prior years since they were not required by generally accepted accounting principles. Therefore, our analysis of comparative balances and changes therein is limited to the current year's operations. In future years, we will present both current and prior year data and discuss significant changes in the accounts. Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net assets of the District's governmental activities increased from \$59,842,844 to \$70,522,591. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$21,693,558 at August 31, 2002. This increase in governmental net assets was mostly the result of three factors. First, the District's revenues exceeded the expenditures by about \$6.9 million (See Exhibits C-2 and D-2). Second, the District paid bonds and other long-term debt in the amount of \$6.6 million and acquired capital assets in the amount of \$2.5 million. Third, the District recorded depreciation, unused sick leave pay, and other expenses not recognized in the past in the amounts of \$3.7 million.

Table I
Midland Independent School District

NET ASSETS

	Governmental Activities 2002
Current and other assets	39,583,140
Capital assets	99,575,262
Total assets	<u>139,158,402</u>
Long-term liabilities	59,675,329
Other liabilities	8,960,482
Total liabilities	<u>68,635,811</u>
Net Assets:	
Invested in capital assets net of related debt	42,658,273
Restricted	7,170,760
Unrestricted	20,693,558
Total net assets	<u>70,522,591</u>

Table II
Midland Independent School District

CHANGES IN NET ASSETS
in thousands

	Governmental Activities 2002
Revenues:	
Program Revenues:	
Charges for Services	2,534,716
Operating grants and contributions	17,552,610
General Revenues:	
Maintenance and operations taxes	67,814,126
Debt service taxes	4,954,120
State aid - formula grants	48,066,528
Grants and Contributions not restricted to specific functions	4,728,107
Investment Earnings	748,042
Miscellaneous	1,208,698
Total Revenue	147,606,947
Expenses:	
Instruction, curriculum and media services	85,442,386
Instructional and school leadership	8,836,868
Student support services	11,055,644
Child nutrition	6,428,011
Cocurricular activities	2,853,733
General administration	3,446,149
Plant maintenance, security & data processing	15,429,443
Community services	784,473
Debt services	2,650,493
Total Expenses	136,927,200
Increase in net assets before transfers and special items	10,679,747
Transfers	
Special Items	
Net assets at September 1, 2001	59,842,844
Net assets at August 31, 2002	70,522,591

The District's total revenues increased 8.4% (\$11.7 million), primarily due to increased property values of \$619 million that resulted in an additional \$8.1 million in tax collections. The total cost of all programs and services decreased by \$5 million.

The District took actions this year to compensate for some increases in payroll costs. The District will no longer provide a 3% matching annuity plan for employees hired after July 31, 2002. The District is also reviewing administrative positions as they become vacant to determine if they can be consolidated or eliminated.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$26.7 million, up \$5.4 million from 2001 (See Exhibit C-3). Included in this year's total change in fund balance is an increase of \$3.5 million in the District's General Fund. As illustrated in Exhibit J-3, this leaves the District \$2.4 million below its optimum fund balance by TEA guidelines.

Over the course of the year, the Board of Trustees revised the District's budget several times. The Trustees approve these budget amendments as necessary to meet current needs and goals of the District.

The District's General Fund balance of \$19.3 million reported on Exhibit G-1 differs from the General Fund's budgetary fund balance of \$13.3 million. This is principally due to cost savings and added revenues described above.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2002, the District had \$99.5 million (net of accumulated depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net decrease of just over \$1.2 million from last year.

Debt:

At year-end, the District had \$56.7 million in bonds and notes outstanding versus \$62.7 million last year. The district paid off \$6.6 million in principal this year, including the early retirement of \$1.7 million.

Other obligations include accrued vacation pay and sick leave. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2003 budget, tax rates. Such factors are assessed property values, anticipated average daily student attendance and anticipated operating costs to the District. A few considerations are as follows:

- The assessed property values increased \$619 million from 2001. However, while this means more revenue in 2002, the District's state funding has an inverse relationship with the prior year's assessed property values and it will result in the District receiving less state funding in 2003. Management

feels the volatility of the oil industry makes constant or steady growth of taxable values unlikely; thus a large decrease in property taxes and state funding within the same year is very realistic.

- The area's unemployment rate was 4.6% in August 2002. The state and national average is 6.0% and 6.5% respectively.
- The cost-of-living (COL) in Midland proves to be substantially lower than the national average. An annual comparative analysis is prepared by the American Chamber of Commerce Research Association (ACCRA) in which the *national* COL index value always equals 100%. Midland ranked at 89.3, or 10.7% lower than the national average in 2001. For comparison, other COL index values were Odessa at 91.4, Abilene at 92.1, Austin at 104.6 and Lubbock at 88.7.
- Average daily attendance increased from 19,147 to 19,324.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Midland Independent School District at 615 West Missouri, Midland, Texas 79701.

BASIC FINANCIAL STATEMENTS

1. STATEMENT OF FINANCIAL POSITION 1

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**MIDLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2002**

Data Control Codes	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
1110 Cash and Cash Equivalents	\$ 29,607,174
1220 Property Taxes Receivable (Delinquent)	3,420,232
1230 Allowance for Uncollectible Taxes	(1,368,093)
1240 Due from Other Governments	5,584,973
1267 Due from Fiduciary Funds	136,164
1290 Other Receivables	564
1310 Inventories - supplies and materials	1,773,441
1410 Deferred Expenditures/Expenses	136
1490 Other Current Assets	428,549
1510 Land	6,027,013
1520 Buildings, net	88,946,848
1530 Furniture and Equipment, net	4,578,721
1550 Leased Property Under Capital Leases, net	22,680
	<u>139,158,402</u>
LIABILITIES	
2110 Accounts Payable	1,453,015
2150 Payroll Deductions & Withholdings	1,496,346
2160 Accrued Wages Payable	2,692,199
2400 Payable from Restricted Assets	3,318,922
Long Term Liabilities:	
2502 Due Within One Year	4,006,034
2510 Due in More Than One Year	55,669,295
	<u>68,635,811</u>
2000 Total Liabilities	
NET ASSETS	
3800 Invested in Capital Assets, Net of Related Debt	42,658,273
3840 Restricted for Food Service	3,328,850
3850 Restricted for Debt Service	3,841,910
3900 Unrestricted Net Assets	20,693,558
	<u>70,522,591</u>
3000 Total Net Assets	\$ 70,522,591

The accompanying notes are an integral part of this statement.

**MIDLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2002**

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 80,156,629	\$ -	\$ 11,435,853
12 Instructional Resources & Media Services	2,333,746	-	322,473
13 Curriculum and Staff Development	2,952,009	-	408,615
21 Instructional Leadership	1,041,174	-	-
23 School Leadership	7,795,694	-	-
31 Guidance, Counseling & Evaluation Services	4,728,542	-	653,755
32 Social Work Services	169,992	-	-
33 Health Services	1,574,073	-	-
34 Student (Pupil) Transportation	4,583,037	-	-
35 Food Services	6,428,011	2,157,470	4,731,914
36 Cocurricular/Extracurricular Activities	2,853,733	377,246	-
41 General Administration	3,446,149	-	-
51 Plant Maintenance and Operations	13,311,295	-	-
52 Security and Monitoring Services	676,306	-	-
53 Data Processing Services	1,441,842	-	-
61 Community Services	784,473	-	-
72 Debt Service - Interest on Long Term Debt	2,650,493	-	-
TP TOTAL PRIMARY GOVERNMENT:	<u>\$ 136,927,200</u>	<u>\$ 2,534,716</u>	<u>\$ 17,552,610</u>

Data Control Codes	General Revenues:
	Taxes:
MT	Property Taxes, Levied for General Purposes
DT	Property Taxes, Levied for Debt Service
SF	State Aid - Formula Grants
GC	Grants & Contributions not Restricted
IE	Investment Earnings
MI	Miscellaneous Local and Intermediate Revenue
TR	Total General Revenues
CN	Change in Net Assets
NB	Net Assets--Beginning
NE	Net Assets--Ending

The accompanying notes are an integral part of this statement.

		Net (Expense) Revenue and Changes in Net Assets
5	Capital Grants and Contributions	Total Governmental Activities
\$	-	\$ (68,720,776)
	-	(2,011,273)
	-	(2,543,394)
	-	(1,041,174)
	-	(7,795,694)
	-	(4,074,787)
	-	(169,992)
	-	(1,574,073)
	-	(4,583,037)
	-	461,373
	-	(2,476,487)
	-	(3,446,149)
	-	(13,311,295)
	-	(676,306)
	-	(1,441,842)
	-	(784,473)
	-	(2,650,493)
<u>\$</u>	<u>-</u>	<u>(116,839,874)</u>

67,814,126
4,954,120
48,066,528
4,728,107
748,042
<u>1,208,698</u>
<u>127,519,621</u>
10,679,747
59,842,844
<u>\$ 70,522,591</u>

**MIDLAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2002**

Data Control Codes	10 General Fund	20 Food Service Fund	50 Debt Service Fund
ASSETS			
1110 Cash and Temporary Investments (market)	\$ 17,215,759	\$ 3,098,775	\$ 2,934,720
1220 Property Taxes - Delinquent	3,117,919	-	302,313
1230 Allowance for Uncollectible Taxes (credit)	(1,368,093)	-	-
1240 Due from Other Governments	3,269,398	363,237	767,518
1260 Due from Other Funds	5,125,450	341,188	-
1310 Inventories	1,178,374	595,067	-
1410 Deferred Expenditures	-	-	-
1490 Other Current Assets	425,807	-	-
1000 Total Assets	\$ 28,964,614	\$ 4,398,267	\$ 4,004,551
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 1,241,496	\$ 119,974	\$ -
2150 Payroll Deductions and Withholdings Payable	1,496,346	-	-
2160 Accrued Wages Payable	2,353,287	189,212	-
2170 Due to Other Funds	2,697,569	760,231	116,835
2300 Deferred Revenues	1,800,076	-	45,806
2000 Total Liabilities	\$ 9,588,774	\$ 1,069,417	\$ 162,641
Fund Balances:			
Reserved For:			
3410 Investments in Inventory	\$ 1,178,374	\$ -	\$ -
3420 Retirement of Long-Term Debt	-	-	3,841,910
3430 Prepaid Items	184	-	-
3440 Outstanding Encumbrances	1,338,296	-	-
3450 Food Service	-	3,328,850	-
Unreserved and Undesignated:			
3600 Reported in the General Fund	16,858,986	-	-
3610 Reported in Special Revenue Funds	-	-	-
3000 Total Fund Balances	\$ 19,375,840	\$ 3,328,850	\$ 3,841,910
4000 Total Liabilities and Fund Balances	\$ 28,964,614	\$ 4,398,267	\$ 4,004,551

The accompanying notes are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 410,057	\$ 23,659,311
-	3,420,232
-	(1,368,093)
1,184,820	5,584,973
758,494	6,225,132
-	1,773,441
136	136
2,742	428,549
<u>\$ 2,356,249</u>	<u>\$ 39,723,681</u>
\$ 91,545	\$ 1,453,015
-	1,496,346
149,703	2,692,202
1,805,890	5,380,525
119,469	1,965,351
<u>\$ 2,166,607</u>	<u>\$ 12,987,439</u>
\$ -	\$ 1,178,374
-	3,841,910
-	184
122,367	1,460,663
-	3,328,850
-	16,858,986
67,275	67,275
<u>\$ 189,642</u>	<u>\$ 26,736,242</u>
<u>\$ 2,356,249</u>	<u>\$ 39,723,681</u>

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MIDLAND INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 FOR THE YEAR ENDED AUGUST 31, 2002

Total Fund Balances - Governmental Funds	\$	26,736,242
<hr/>		
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, 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 assets. The net effect of this consolidation is to increase net assets.		1,921,065
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$150,660,074 and the accumulated depreciation was \$49,837,450. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		37,211,442
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2002 capital outlays and debt principal payments is to increase net assets.		9,204,403
4 The 2002 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(3,757,573)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.		(792,988)
19 Net Assets of Governmental Activities	\$	70,522,591

The accompanying notes are an integral part of this statement.

**MIDLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002**

Data Control Codes	10 General Fund	20 Food Service Fund	50 Debt Service Fund
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 70,725,431	\$ 2,225,003	\$ 5,129,627
5800 State Program Revenues	49,302,184	-	3,292,468
5900 Federal Program Revenues	586,021	5,095,001	-
5020 Total Revenues	<u>120,613,636</u>	<u>7,320,004</u>	<u>8,422,095</u>
EXPENDITURES:			
Current:			
0011 Instruction	70,045,594	-	-
0012 Instructional Resources & Media Services	1,977,003	-	-
0013 Curriculum & Instructional Staff Development	1,710,535	-	-
0021 Instructional Leadership	631,950	-	-
0023 School Leadership	7,482,765	-	-
0031 Guidance, Counseling & Evaluation Services	4,150,995	-	-
0032 Social Work Services	171,936	-	-
0033 Health Services	1,241,063	-	-
0034 Student (Pupil) Transportation	4,836,758	-	-
0035 Food Services	-	6,545,170	-
0036 Cocurricular/Extracurricular Activities	2,802,205	-	-
0041 General Administration	3,406,207	-	-
0051 Plant Maintenance and Operations	13,687,845	-	-
0052 Security and Monitoring Services	727,702	-	-
0053 Data Processing Services	1,384,009	-	-
0061 Community Services	155,548	-	-
Debt Service:			
0071 Debt Service - Principal on long-term debt	1,725,000	-	4,925,000
0171 Debt Service - Interest on long-term debt	103,706	-	2,546,787
Capital Outlay:			
0081 Facilities Acquisition and Construction	824,024	-	-
6030 Total Expenditures	<u>117,064,845</u>	<u>6,545,170</u>	<u>7,471,787</u>
1200 Net Change in Fund Balances	3,548,791	774,834	950,308
0100 Fund Balance - September 1 (Beginning)	<u>15,827,049</u>	<u>2,554,016</u>	<u>2,891,602</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 19,375,840</u>	<u>\$ 3,328,850</u>	<u>\$ 3,841,910</u>

The accompanying notes are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 37,664	\$ 78,117,725
3,026,221	55,620,873
9,793,392	15,474,414
<u>12,857,277</u>	<u>149,213,012</u>
8,750,598	78,796,192
248,766	2,225,769
1,249,813	2,960,348
416,947	1,048,897
206,070	7,688,835
615,158	4,766,153
-	171,936
334,869	1,575,932
142,486	4,979,244
43,637	6,588,807
15,000	2,817,205
47,072	3,453,279
4,163	13,692,008
-	727,702
-	1,384,009
641,809	797,357
-	6,650,000
-	2,650,493
-	<u>824,024</u>
<u>12,716,388</u>	<u>143,798,190</u>
140,889	5,414,822
48,753	21,321,420
<u>\$ 189,642</u>	<u>\$ 26,736,242</u>

MIDLAND INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2002

Total Net Change in Fund Balances - Governmental Funds	\$	5,414,822
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net assets.</p>		
		1,559,998
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2002 capital outlays and debt principal payments is to increase net assets.</p>		
		9,204,403
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.</p>		
		(3,757,573)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.</p>		
		(1,741,903)
Change in Net Assets of Governmental Activities	\$	10,679,747

The accompanying notes are an integral part of this statement.

MIDLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
AUGUST 31, 2002

Data Control Codes	Internal Service Fund
ASSETS	
Current Assets:	
1110 Cash and Cash Equivalents	\$ 5,947,863
1260 Due from Other Funds	3,559
1290 Other Receivables	<u>564</u>
Total Current Assets	<u>5,951,986</u>
Total Assets	<u>5,951,986</u>
LIABILITIES	
Current Liabilities:	
2170 Due to Other Funds	711,999
2400 Payable from Restricted Assets	<u>3,318,922</u>
Total Current Liabilities	<u>4,030,921</u>
Total Liabilities	<u>4,030,921</u>
NET ASSETS	
3900 Unrestricted Net Assets	<u>1,921,065</u>
Total Net Assets	<u><u>\$ 1,921,065</u></u>

The accompanying notes are an integral part of this statement.

**MIDLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002**

Data Control Codes	Internal Service Fund
OPERATING REVENUES:	
5700 Local and Intermediate Sources	<u>\$ 11,232,748</u>
Total Operating Revenue	<u>11,232,748</u>
OPERATING EXPENSES:	
6100 Payroll Costs	119,895
6200 Professional and Contracted Services	60
6300 Supplies and Materials	2,772
6400 Other Operating Costs	<u>9,550,023</u>
Total Operating Expenses	<u>9,672,750</u>
9000 Change in Net Assets	1,559,998
9100 Total Net Assets - September 1 (Beginning)	<u>361,067</u>
9200 Total Net Assets - August 31 (Ending)	<u>\$ 1,921,065</u>

The accompanying notes are an integral part of this statement.

**MIDLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002**

	Internal Service Fund
Net Increase in Cash and Cash Equivalents	\$ 2,904,961
Cash and Cash Equivalents at Beginning of Year	3,042,902
Cash and Cash Equivalents at the End of the Year	5,947,863
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	1,559,998
Effect of Increases and Decreases in Assets and Liabilities	
Decrease in Due from Other Funds	79,177
(Decrease) in Accounts Payable	(25)
Increase in Due to Other Funds	528,133
Increase in Payable from Restricted Assets	737,678
Net Effect of Increases and Decreases in Assets and Liabilities	1,344,963
Net Increase in Cash and Cash Equivalents	\$ 2,904,961

The accompanying notes are an integral part of this statement.

**MIDLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2002**

	Private Purpose Trust Funds	Employee Benefits Trust Fund	Student Activity Fund
ASSETS			
Cash and Cash Equivalents	\$ 65,361	\$ 527,275	\$ 476,033
Other Receivables	1,508	241,654	-
Inventories	1,804	-	-
Total Assets	<u>\$ 68,673</u>	<u>\$ 768,929</u>	<u>\$ 476,033</u>
LIABILITIES			
Accounts Payable	\$ 5,605	\$ -	\$ -
Due to Other Funds	6,053	130,668	-
Due to Student Groups	-	-	469,861
Due to Employees	-	-	6,172
Payable from Restricted Assets	56,280	638,261	-
Total Liabilities	<u>\$ 67,938</u>	<u>\$ 768,929</u>	<u>\$ 476,033</u>
NET ASSETS			
Unrestricted Net Assets	<u>\$ 735</u>		
Total Net Assets	<u><u>\$ 735</u></u>		

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The accompanying notes are an integral part of this statement.

MIDLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002

	Private Purpose Trust Funds
ADDITIONS	
Local and Intermediate Sources	\$ 2,681
Total Additions	<u>2,681</u>
DEDUCTIONS	
Supplies and Materials	111
Other Operating Costs	<u>3,657</u>
Total Deductions	<u>3,768</u>
Change in Net Assets	(1,087)
Total Net Assets - September 1 (Beginning)	<u>1,822</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 735</u></u>

The accompanying notes are an integral part of this statement.

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MIDLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2002

I. 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 *Statement on Auditing Standards No. 69* 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." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Midland Independent School District 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 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 Assets 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 Assets. 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 Assets 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.

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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 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. 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.

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 some times 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 expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets (Exhibit A-1). The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

- 1. The General Fund** - 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.
- 2. Food Service Fund**- The food service 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.
- 3. The Debt Service Fund** - 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.

Additionally, the District reports the following fund types:

Governmental Funds:

- 1. 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.
- 2. Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund. The District has no capital projects funds.
- 3. Permanent Funds** – Donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Proprietary Funds:

- 4. Enterprise Funds** – Activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has no enterprise funds.
- 5. 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's Internal Service Fund is for health, dental and workers compensation benefits.

Fiduciary Funds:

- 6. 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 Funds are the scholarship and carver center impact funds.
- 7. Pension (and Other 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 Fund is the matching annuity and section 125 fund.
- 8. Investment Trust Fund** - This fund is one in which the District holds assets in trust for other entities participating in an investment program managed by the district. The District has no Investment Trust Funds.

9. **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. 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. 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.
3. 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 deferred charges and amortized over the term of the related debt.

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.

4. 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, 2002, the District's liability for unused sick leave is \$2,758,339.
5. Capital assets include 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>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	40
Buses	10
Other Vehicles	5
Office Equipment	5
Computer Equipment	5

6. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
9. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.
10. 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.
11. In preparing financial statements in conformity with generally accepted accounting principals, 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.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets	Historical Costs	Accumulated Depreciation	Net Value at the Beginning of Year	Change in Net Assets
Land	6,021,812	n/a	6,021,812	
Buildings & Improvements	132,931,755	42,011,021	90,920,734	
Furniture & Equipment	11,706,507	7,826,429	3,880,078	
Net Change in Assets				100,822,624
Long-term Liabilities at the Beginning of Year	Beginning Payables			
Capital Leases Payable	(248,675)			
Bonds Payable (w/ Accretion)	(63,362,507)			
Net Change in Assets				(63,611,182)
Total Adjustment to Net Assets				\$37,211,442

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

Capital Outlays & Long-Term Debt	Amount
Additions - Land	5,200
Additions - Buildings & Improvements	938,205
Additions - Furniture & Equipment	1,544,125
Capital Lease Principal Payments	66,873
Bond Principal Payments	6,650,000
Total Adjustment to Net Assets	\$9,204,403

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

Description	Amount
Adjustments to Revenue and Deferred Revenue:	
Taxes Collected from Prior Year Levies	(2,528,606)
Uncollected Taxes (assumed collectible) from current year levy	922,542
Total adjustments to revenue and deferred revenue	(1,606,064)
Reclassify liabilities incurred but not liquidated this year:	
Accrued Sick Leave Payable	(135,839)
Total Adjustment to Net Assets	\$(1,741,903)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund. 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 C-5 and the other two reports are in Exhibit J4 and J5.

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.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank 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.

At August 31, 2002, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,760,956 and the bank balance was \$6,240,748. The District's cash deposits at August 31, 2002 and during the year ended August 31, 2002 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: First American Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$10,260,099.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$9,904,166 and occurred on August 29, 2002.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$100,000.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas 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 investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) and investment staff quality and capabilities. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and 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 district is in compliance with the requirements of the Act and with local policies.

Both cash deposits held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 - Cash or Investments that are insured, registered or held by the District or by its agent in the District's name.
- Category 2 - Cash or Investments that are uninsured and unregistered held by the counter-party's trust department or agent in the District's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the District's name.

Based on these three levels of risk, all of the District's deposits are classified as Category 1.

The District's temporary investments at August 31, 2002, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool (Investment Pool)	\$25,846,218	25,846,218

B. 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 tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. 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.

D. INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at August 31, 2002 consisted of the following individual fund balances:

Description	General Fund	Special Revenue Funds	Debt Service Fund	Agency Funds	Internal Service Fund
Due From General Fund	2,130,677	566,893			
Due From Special Revenue Funds	2,029,776	532,789			3,559
Due From Debt Service Fund	116,835				
Due From Internal Service Fund	711,998				
Due From Trust & Agency Funds	136,164				
*Total Due From's	5,125,450	1,099,682			3,559
Due To General Fund	2,130,677	2,029,776	116,835	136,164	711,998
Due To Special Revenue Funds	566,893	532,789			
Due To Debt Service Fund					
Due To Internal Service Fund		3,559			
Due To Trust & Agency Funds					
*Total Due To's	2,697,570	2,566,124	116,835	136,164	711,998

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2002, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	6,021,812	5,200		6,027,012
Buildings and Improvements	132,931,755	938,205		133,869,960
Furniture and Equipment	11,706,507	2,430,439	(886,314)	13,250,632
Leased Property Under Capital Leases		22,680		22,680
Totals at Historic Cost	150,660,074	3,396,524	(886,314)	153,170,284
Less Accumulated Depreciation:				
Buildings and Improvements	42,011,021	2,912,091		44,923,112
Furniture and Equipment	7,826,429	845,481		8,671,910
Total Accumulated Depreciation	49,837,450	3,757,572		53,595,022
Governmental Activities Capital Assets, Net	100,822,624	(361,048)	(886,314)	99,575,262

Depreciation expense was charged to governmental functions as follows:	Amount
Instruction	2,351,345
Instructional Resources and Media Services	131,570
Curriculum Development and Instructional Staff Development	10,619
Instructional Leadership	5,312
School Leadership	200,530
Guidance, Counseling and Evaluation Services	8,176
Health Services	16,880
Student (Pupil) Transportation	627,443
Food Services	30,025
Cocurricular/Extracurricular Activities	52,448
General Administration	15,927
Plant Maintenance and Operations	221,344
Security and Monitoring Service	1,607
Data Processing Services	84,346
Total Depreciation Expense	\$ 3,757,572

F. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended August 31, 2002 is as follows:

Date of Issue	Series	Interest Rate	Amount of Original Issue	Amount o/s 9/1/2001	Interest Accretion	Retired Current Year	Amount o/s 8/31/2002
7/15/91	1991,1991A	5.2-6.85%	23,055,000	1,970,000			1,970,000
11/15/91	1991B	6-8%	4,000,000	820,000			820,000
12/15/92	1992 ⁽¹⁾	2.9-6%	16,570,000	4,312,641	226,984	2,320,000	2,219,625
10/15/93	1993 ⁽¹⁾	2.6-5.15%	24,960,000	21,046,072	214,787	380,000	20,880,859
7/2/01	1997	3.5-4.625%	6,055,000	6,055,000		270,000	5,785,000
4/1/99	1997A	4-5.5%	9,855,000	7,465,000		1,425,000	6,040,000
11/15/98	1998	4.75-5%	20,450,000	18,475,000		530,000	17,945,000
11/15/98	1998 ⁽¹⁾	4.2-4.3%	1,520,000	928,724	123,299		1,052,023
1/13/00	1999	4.45-6.8%	2,180,000	1,725,000		1,725,000	0
Total				62,797,437	565,070	6,650,000	56,712,507

(1) Capital Appreciation Bonds

Debt service requirements are as follows:

Year	Principal	Interest	Total
2003	4,154,625.07	2,403,539.93	6,558,165.00
2004	4,340,000.00	2,321,674.76	6,661,674.76
2005	4,550,000.00	2,749,231.09	7,299,231.09
2006	2,534,796.19	2,918,089.72	5,452,885.91
2007	4,740,000.00	1,922,221.00	6,662,221.00
Thereafter	36,393,085.84	7,988,801.16	44,381,887.00
Total	56,712,507.10	20,303,557.66	77,016,064.76

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group, 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 \$20,000,000.

On December 1, 1999 the District issued \$2,180,000 in Public Property Finance Contractual Obligations. The debt was used to purchase equipment and to pay \$44,508, the cost of issuance of the obligations. The bonds are payable from a continuing direct annual ad valorem tax levied by the District, within the limits prescribed by law, on all taxable property within the District. These bonds were called in the year ended August 31, 2002 and have been removed from long-term debt.

On December 30, 1998, the School District issued \$21,114,994 of bonds in order to retire a portion of bonded debt outstanding on that date and to pay the cost of renovating elementary schools within the District. The proceeds of the bonds were also used to pay issuance costs of \$75,000 and underwriters discount of \$150,287. The refunded bond proceeds were deposited into an escrow trust account. These proceeds were invested in direct obligations of the Government of the United States with maturities which coincide with the interest and principal due dates of the refunded bonds. The investment income will be adequate to retire future interest and principal payments of the refunded bonds, which had a book value of \$1,615,000 at the date of the refunding. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore, the \$1,615,000 in refunded bonds have been removed from the Long-Term Debt Group. The purpose of the refunding was to secure a fixed interest rate on the bonds, which had previously been subject to variable interest rates. This refunding resulted in an economic loss of approximately \$17,000.

On April 1, 1997 the District issued \$20,000,000 of bonds to be used for the construction, renovation and equipping of school facilities and to pay \$139,994, the costs of issuance of the bonds. The bonds are payable from a continuing direct annual ad valorem tax levied by the District, without limits as to rate or amount, on all taxable property within the District. On April 1, 1999, \$9,855,000 of the bonds were converted to fixed rate bonds. On July 2, 2001, \$6,055,000 of the bonds were converted to fixed rate bonds.

On October 15, 1993, the Midland Independent School District issued \$22,553,754 of bonds in order to retire a portion of bonded debt outstanding on that date. The proceeds of the bonds were also used to pay issuance costs and underwriter discounts of approximately \$115,000. The refunded bond proceeds were deposited into an escrow trust account and invested in direct obligations of the Government of the United States with maturities which coincide with the interest and principal due dates of the refunded bonds. The investment income will be adequate to retire future interest and principal payments of the refunded bonds, which had a book value of \$19,920,000 at the date of refunding. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore, the \$19,920,000 in refunded bonds have been removed from the Long-Term Debt Group. The purpose of the refunding was to extend maturities in order to prevent a higher allocation of property tax receipts toward debt service requirements. This refunding decreased total debt service by approximately \$1,635,000 and resulted in an economic gain of approximately \$800,000.

On December 1, 1992, the Midland Independent School District issued \$13,639,179 of bonds in order to retire a portion of bonded debt outstanding on that date. The proceeds of the bonds were also used to pay issuance costs of approximately \$53,500 and underwriter discounts of approximately \$109,000. The refunded bond proceeds were deposited into an escrow trust account and invested in direct obligations of the Government of the United States with maturities which coincide with the interest and principal due dates of the refunded bonds. The investment income will be adequate to retire

future interest and principal payments of the refunded bonds, which had a book value of \$12,242,130 at the date of refunding. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore, the \$12,242,130 in refunded bonds have been removed from the Long-Term Debt Group.

On August 29, 1991, the District issued \$22,617,622 of bonds in order to retire a portion of the bonded debt outstanding on that date and to pay the cost of constructing two new schools and building additions/improvements to existing schools in the District. The proceeds of the bonds were also used to pay issuance costs of approximately \$131,000 to underwriter discounts of approximately \$339,000. The refunded bond proceeds were deposited into an escrow trust account. These proceeds were invested in direct obligations of the Government of the United States with maturities which coincide with the interest and principal due dates of the refunded bonds. The investment income will be adequate to retire future interest and principal payments of the refunded bonds, which had a book value of \$1,860,876 at the date of refunding. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore, the \$1,860,876 in refunded bonds Group, and the remaining refunded bonds were called in the fiscal year ended August 31, 2001.

On July 1, 1988, the Midland Independent School District issued \$18,034,965 of bonds in order to retire a portion of bonded debt outstanding on that date, to pay the costs of site acquisition, construction, and equipping of new school buildings in the District, and to pay the costs related to the issuance of the bonds. Their refunded bond proceeds were deposited into an escrow trust account. These proceeds were invested in direct obligations of the Government of the United States with maturities which coincide with the interest and principal due dates of the refunded bonds. The investment income will be adequate to retire future interest and principal payments of the \$5,555,000 in refunded bonds. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore, the \$5,555,000 in refunded bonds have been removed from the Long-Term Debt Group.

Capital Appreciation Bonds with an original issue amount of \$6,084,433 are included in the above maturities. These reflect the total amount of accreted interest to be paid on those bonds maturing in the respective years, and do not include interest accruing but not paid in years prior to maturity. The accreted value of the capital appreciation bonds at August 31, 2002 is \$8,802,507. The value of the Capital Appreciation Bonds at maturity is \$10,225,000.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions as of August 31, 2002.

G. COMMITMENTS UNDER LEASES

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2002, as follows:

Year Ending	
<u>August 31,</u>	
2003	4,312
2004	179
Thereafter	<u>0</u>
Total Minimum Rentals	<u>\$4,491</u>
Rental Expenditures in Fiscal Year	\$6,756
2002	

Capital Leases

The district acquired office and instructional equipment under long-term capital lease agreement. Imputed interest rates vary from 3.41% to 7.35%. The value of capital lease items in the government wide fund statements is \$327,219.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2003	78,392.93	11,754.37
2004	83,854.11	6,293.19
2005	41,244.11	1,259.19
2006	7,326.53	148.77
After	745.41	2.12
Estimated Future Capital Lease Payments		\$231,021
Rental Expenditures in Fiscal Year 2002		\$82,073

H. 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, 2002, the District's liability for unused sick leave is \$2,758,339.

I. DEFINED BENEFIT PENSION PLAN

Plan Description. Midland Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 8701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. State law provides for fiscal years 2000, 2001 and 2002 a state contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's 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. State contributions to TRS made on behalf of Midland Independent School District's employees for the years ended August 31, 2000, 2001 and 2002 were \$5,846,760, \$5,897,218, and \$6,041,043, respectively. Midland Independent School District paid additional state contributions for the years ended August 31, 2000, 2001, and 2002 in the amount of \$310,468, \$348,839, and \$376,301, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

J. 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, 2002, to \$100,000 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, 2002, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

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

	Year Ended August 31, 2001	Year Ended August 31, 2002
Unpaid claims, beginning of the year	\$59,256	\$1,236,025
Incurred claims/changes in estimates (including IBNR'S)	5,809,576	8,115,722
Claim Payments	<u>(4,632,807)</u>	<u>(7,609,083)</u>
Unpaid claims, end of fiscal year	<u>\$1,236,025</u>	<u>\$1,742,664</u>

K. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2002, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Bonds and Notes Payable	62,797,437	565,070	(6,650,000)	56,712,507
Capital Leases	248,675	22,680	(66,873)	204,482
Compensated Absences	2,622,501	135,839	-	2,758,340
Total Long-Term Liabilities	65,668,613	723,589	(6,716,873)	59,675,329

L. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Net Tax Revenue	1,544,364		45,806	1,590,170
Gate Receipts	186,157			186,157
Activity Fund Receipts	61,010			61,010
IDEA B Formula		20		20
ESEA Title VI		2,236		2,236
Matching Library Funds		357		357
Air Force Junior ROTC		21,103		21,103
Texas Successful Schools		889		889
Pregnancy Education and Parenting		19,719		19,719
Communities in Schools		5,378		5,378
Technology Allotment		4,839		4,839
Kindergarten & Pre-K Grant		64,929		64,929
Miscellaneous	8,545			8,545
Total	1,800,076	119,470	45,806	1,965,352

M. DUE 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, 2002, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

Description	Amount
General Fund	3,269,398
Food Service	363,237
Summer Feeding Program	155,522
Head Start	364,213
Title I, Part A	17,087
Title I, Part C Migrant	2,126
Title VII, Part A Bilingual	48,003
Adult Basic Education	26,512
IDEA, Part B Formula	10,362
IDEA, Part B Discretionary	4,299
Title II, Part D Training	10,921
Title I, School Reform	42,968
Title II, Part D Technology	775
Magnet Schools	568
Non-Ed Community Support	2,085
Guidance for At-Risk Students	61,685
Advance Placement Incentives	5,007
Optional Extended Year Program	63,429
Teacher Recruitment	25,026
Basic Skills Program	21,621
Technology Allotment	8,991
TIF Grants	223,721
Texas Reading Initiative	34,374
Kindergarten & Pre-K	53,037
School to Career Tech	2,488
Debt Service	767,518
Total	5,584,973

N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Property Taxes	67,284,554		4,940,629	72,225,183
Penalties, Interest and Other Tax-related Income	703,275		61,222	764,497
Investment Income	553,437	66,829	127,776	748,042
Food Sales		2,157,470		2,157,470
Co-curricular Student Activities	1,562,006			1,562,006
Other	622,159	38,368		660,527
Total	70,725,431	2,262,667	5,129,627	78,117,725

O. LITIGATION

There are various claims and pending legal actions incidental to the operation of the District. In the opinion of management, the District's ultimate liability in these matters, in aggregate, is immaterial.

P. 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 K:

- a) Total District Premium paid for health care 2001-02 \$7,130,746
- b) Subtract any non-medical expenditures Life Insurance (35,114)
- c) 2001-2002 Maintenance of Effort \$7,095,632

Self-insured Districts/Entities/Risk Pools: TRS 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).

Q. EMPLOYEE DEFINED CONTRIBUTION PLAN

The District participates in a matching annuity plan for the benefit of its employees. A person employed before August 1, 2002 may elect to participate in the plan by contributing part of his or her income to a Section 403(b) or Section 457 deferred compensation plan. The District matches the employees' contribution 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, 2002, 2,004 employees participated in the plan and the District contributed \$1,941,293.

R. 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.

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 \$679,569 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.

The accrued liabilities for worker's compensation self-insurance of \$1,572,699 includes estimated incurred but not reported claims.

The following year-by-year exposure details the number of annual claims:

Fiscal Year	Claims
1993	260
1994	262
1995	298
1996	326
1997	279
1998	342
1999	338
2000	139
2001	332
2002	113
10 Year Average	269

Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2001	1,345,219	47,376	168,273	1,224,322
2002	1,224,322	672,971	324,594	1,572,699

S. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

1. *Journal of the American Chemical Society*, 1998, 120, 1111-1112.

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MIDLAND ISD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2002

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 70,408,000	\$ 70,495,148	\$ 70,725,431	\$ 230,283
5800	State Program Revenues	51,134,774	48,788,121	49,302,184	514,063
5900	Federal Program Revenues	-	460,000	586,021	126,021
5020	Total Revenues	121,542,774	119,743,269	120,613,636	870,367
EXPENDITURES:					
Current:					
0011	Instruction	70,132,439	71,446,740	70,045,594	1,401,146
0012	Instructional Resources & Media Services	2,026,273	2,182,084	1,977,003	205,081
0013	Curriculum & Instructional Staff Development	1,834,446	1,988,926	1,710,535	278,391
0021	Instructional Leadership	576,943	720,713	631,950	88,763
0023	School Leadership	7,575,880	7,508,141	7,482,765	25,376
0031	Guidance, Counseling & Evaluation Services	4,098,557	4,578,860	4,150,995	427,865
0032	Social Work Services	183,223	223,223	171,936	51,287
0033	Health Services	1,270,463	1,333,113	1,241,063	92,050
0034	Student (Pupil) Transportation	5,218,669	5,343,412	4,836,758	506,654
0036	Cocurricular/Extracurricular Activities	2,638,880	2,950,755	2,802,205	148,550
0041	General Administration	3,604,689	3,529,791	3,406,207	123,584
0051	Plant Maintenance and Operations	15,866,384	15,528,599	13,687,845	1,840,754
0052	Security and Monitoring Services	675,530	775,530	727,702	47,828
0053	Data Processing Services	1,415,604	1,491,505	1,384,009	107,496
0061	Community Services	138,104	162,108	155,548	6,560
0071	Debt Service - Principal on long-term debt	1,773,375	1,773,375	1,725,000	48,375
0171	Debt Service - Interest on long-term debt	103,706	103,706	103,706	-
0081	Facilities Acquisition and Construction	-	600,000	824,024	(224,024)
6030	Total Expenditures	119,133,165	122,240,581	117,064,845	5,175,736
1200	Net Change in Fund Balances	2,409,609	(2,497,312)	3,548,791	6,046,103
0100	Fund Balance - September 1 (Beginning)	15,827,049	15,827,049	15,827,049	-
3000	Fund Balance - August 31 (Ending)	\$ 18,236,658	\$ 13,329,737	\$ 19,375,840	\$ 6,046,103

The accompanying notes are an integral part of this statement.

**MIDLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2002**

Data Control Codes	203 Child Care Development Block Grant	204 ESEA Title IV Safe & Drug Free Schools	205 Head Start	210 ESEA II, B Professional Development
ASSETS				
1110 Cash and Temporary Investments (market)	\$ -	\$ 139	\$ 551	\$ 2,547
1240 Due from Other Governments	-	-	364,213	-
1260 Due from Other Funds	-	-	-	-
1410 Deferred Expenditures	-	-	-	-
1490 Other Current Assets	-	-	2,742	-
1000 Total Assets	<u>\$ -</u>	<u>\$ 139</u>	<u>\$ 367,506</u>	<u>\$ 2,547</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ 16,706	\$ -
2160 Accrued Wages Payable	-	-	123,802	-
2170 Due to Other Funds	-	139	226,998	2,547
2300 Deferred Revenues	-	-	-	-
2000 Total Liabilities	<u>-</u>	<u>139</u>	<u>367,506</u>	<u>2,547</u>
Fund Balances:				
Reserved For:				
3440 Outstanding Encumbrances	-	-	11,326	-
Unreserved and Undesignated:				
3610 Reported in Special Revenue Funds	-	-	(11,326)	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 139</u>	<u>\$ 367,506</u>	<u>\$ 2,547</u>

211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	219 ESEA VII, A Bilingual Education	220 Adult Basic Education Federal	222 Learn and Serve America	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
\$ 109,862	\$ 49,094	\$ -	\$ 3,205	\$ 27	\$ 18,955	\$ -	\$ -
17,087	2,126	48,003	26,512	-	10,362	-	4,299
3,000	-	-	-	-	114,157	-	-
36	-	-	-	-	100	-	-
-	-	-	-	-	-	-	-
<u>\$ 129,985</u>	<u>\$ 51,220</u>	<u>\$ 48,003</u>	<u>\$ 29,717</u>	<u>\$ 27</u>	<u>\$ 143,574</u>	<u>\$ -</u>	<u>\$ 4,299</u>
\$ 9,105	\$ -	\$ -	\$ -	\$ -	\$ 10,362	\$ -	\$ -
-	-	-	-	-	-	-	-
120,880	51,220	48,003	29,717	27	133,192	-	4,299
-	-	-	-	-	20	-	-
<u>129,985</u>	<u>51,220</u>	<u>48,003</u>	<u>29,717</u>	<u>27</u>	<u>143,574</u>	<u>-</u>	<u>4,299</u>
33,708	7,082	4,868	-	-	-	-	116
(33,708)	(7,082)	(4,868)	-	-	-	-	(116)
-	-	-	-	-	-	-	-
<u>\$ 129,985</u>	<u>\$ 51,220</u>	<u>\$ 48,003</u>	<u>\$ 29,717</u>	<u>\$ 27</u>	<u>\$ 143,574</u>	<u>\$ -</u>	<u>\$ 4,299</u>

**MIDLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2002**

Data Control Codes	227 IDEA - Part B Deaf	228 IDEA - Part B Preschool Deaf	235 ESEA Title VI Innovative Education	242 Summer Feeding Program
ASSETS				
1110 Cash and Temporary Investments (market)	\$ 802	\$ -	\$ 3,491	\$ 25,914
1240 Due from Other Governments	-	-	-	155,522
1260 Due from Other Funds	-	-	617	-
1410 Deferred Expenditures	-	-	-	-
1490 Other Current Assets	-	-	-	-
1000 Total Assets	<u>\$ 802</u>	<u>\$ -</u>	<u>\$ 4,108</u>	<u>\$ 181,436</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	-	-	-	-
2170 Due to Other Funds	802	-	1,872	33,884
2300 Deferred Revenues	-	-	2,236	-
2000 Total Liabilities	<u>802</u>	<u>-</u>	<u>4,108</u>	<u>33,884</u>
Fund Balances:				
Reserved For:				
3440 Outstanding Encumbrances	-	-	-	-
Unreserved and Undesignated:				
3610 Reported in Special Revenue Funds	-	-	-	147,552
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,552</u>
4000 Total Liabilities and Fund Balances	<u>\$ 802</u>	<u>\$ -</u>	<u>\$ 4,108</u>	<u>\$ 181,436</u>

244 Vocational Ed Basic Grant	253 IDEA Part C Deaf	255 ESEA II,A Principal Training	256 ESEA, I Improving Teaching	259 Matching for Library Purchase	262 Title II, Part D Technology	282 Magnet Schools Assistance	284 Air Force Junior ROTC
\$ 27,546	\$ 12	\$ 11,984	\$ 3,868	\$ 453	\$ -	\$ -	\$ 21,103
-	-	10,921	42,968	-	775	568	-
-	-	-	-	-	-	72,784	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 27,546</u>	<u>\$ 12</u>	<u>\$ 22,905</u>	<u>\$ 46,836</u>	<u>\$ 453</u>	<u>\$ 775</u>	<u>\$ 73,352</u>	<u>\$ 21,103</u>
\$ -	\$ -	\$ 10,576	\$ 42,968	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
27,546	12	12,329	3,868	96	775	73,352	-
-	-	-	-	357	-	-	21,103
<u>27,546</u>	<u>12</u>	<u>22,905</u>	<u>46,836</u>	<u>453</u>	<u>775</u>	<u>73,352</u>	<u>21,103</u>
1,320	-	-	-	-	-	-	-
(1,320)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 27,546</u>	<u>\$ 12</u>	<u>\$ 22,905</u>	<u>\$ 46,836</u>	<u>\$ 453</u>	<u>\$ 775</u>	<u>\$ 73,352</u>	<u>\$ 21,103</u>

**MIDLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2002**

Data Control Codes	285 C.O.P.S.	383 Professional Staff Development	386 Regional Day School for the Deaf	392 Non-Ed. Community Based Support
ASSETS				
1110 Cash and Temporary Investments (market)	\$ -	\$ 82	\$ 8,272	\$ -
1240 Due from Other Governments	-	-	-	2,085
1260 Due from Other Funds	-	-	-	-
1410 Deferred Expenditures	-	-	-	-
1490 Other Current Assets	-	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ 82</u>	<u>\$ 8,272</u>	<u>\$ 2,085</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ -	-	-	-
2160 Accrued Wages Payable	-	-	-	-
2170 Due to Other Funds	-	82	8,272	2,085
2300 Deferred Revenues	-	-	-	-
2000 Total Liabilities	<u>-</u>	<u>82</u>	<u>8,272</u>	<u>2,085</u>
Fund Balances:				
Reserved For:				
3440 Outstanding Encumbrances	-	-	-	-
Unreserved and Undesignated:				
3610 Reported in Special Revenue Funds	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 82</u>	<u>\$ 8,272</u>	<u>\$ 2,085</u>

EXHIBIT H-1 (Cont'd)

393 Texas Successful Schools Prog.	394 Pregnancy, Education and Parenting	395 Guidance for At-Risk Students	396 Communities in Schools	397 Advanced Placement Incentives	399 Campus Restructuring	401 Optional Extended Year Program	406 ESC Teacher Recruitment
\$ 4,462	\$ 333	\$ -	\$ 7,270	\$ 269	\$ -	\$ 15,405	\$ 7,769
-	-	61,685	-	5,007	-	63,429	25,026
-	77,590	41,660	-	-	-	4,316	17,295
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 4,462</u>	<u>\$ 77,923</u>	<u>\$ 103,345</u>	<u>\$ 7,270</u>	<u>\$ 5,276</u>	<u>\$ -</u>	<u>\$ 83,150</u>	<u>\$ 50,090</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	25,901	-	-	-	-	-
3,574	58,204	77,444	1,892	5,276	-	83,150	50,090
888	19,719	-	5,378	-	-	-	-
<u>4,462</u>	<u>77,923</u>	<u>103,345</u>	<u>7,270</u>	<u>5,276</u>	<u>-</u>	<u>83,150</u>	<u>50,090</u>
-	19,985	-	90	3,315	-	-	719
-	(19,985)	-	(90)	(3,315)	-	-	(719)
-	-	-	-	-	-	-	-
<u>\$ 4,462</u>	<u>\$ 77,923</u>	<u>\$ 103,345</u>	<u>\$ 7,270</u>	<u>\$ 5,276</u>	<u>\$ -</u>	<u>\$ 83,150</u>	<u>\$ 50,090</u>

**MIDLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2002**

Data Control Codes	409 Basic Skills Program High School	411 Technology Allotment	413 Telecom Infrastruct. Fund	414 Texas Reading Initiative
ASSETS				
1110 Cash and Temporary Investments (market)	\$ 10	\$ 63,436	\$ 18,892	\$ -
1240 Due from Other Governments	21,621	8,991	223,721	34,374
1260 Due from Other Funds	-	-	-	-
1410 Deferred Expenditures	-	-	-	-
1490 Other Current Assets	-	-	-	-
1000 Total Assets	<u>\$ 21,631</u>	<u>\$ 72,427</u>	<u>\$ 242,613</u>	<u>\$ 34,374</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	-	-	-	-
2170 Due to Other Funds	21,631	25,498	242,613	34,374
2300 Deferred Revenues	-	4,839	-	-
2000 Total Liabilities	<u>21,631</u>	<u>30,337</u>	<u>242,613</u>	<u>34,374</u>
Fund Balances:				
Reserved For:				
3440 Outstanding Encumbrances	-	19,186	10,554	-
Unreserved and Undesignated:				
3610 Reported in Special Revenue Funds	-	22,904	(10,554)	-
3000 Total Fund Balances	<u>-</u>	<u>42,090</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 21,631</u>	<u>\$ 72,427</u>	<u>\$ 242,613</u>	<u>\$ 34,374</u>

415 Kindergarten and Pre-K Grants	427 Student Success Initiative	465 School to Career Tech	485 Music Plus Program	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ 200	\$ -	\$ 4,104	\$ 410,057	\$ 410,057
53,037	-	2,488	-	1,184,820	1,184,820
425,784	-	1,291	-	758,494	758,494
-	-	-	-	136	136
-	-	-	-	2,742	2,742
<u>\$ 478,821</u>	<u>\$ 200</u>	<u>\$ 3,779</u>	<u>\$ 4,104</u>	<u>\$ 2,356,249</u>	<u>\$ 2,356,249</u>
\$ -	\$ 100	\$ -	\$ 1,728	\$ 91,545	\$ 91,545
-	-	-	-	149,703	149,703
413,892	100	3,779	2,376	1,805,890	1,805,890
64,929	-	-	-	119,469	119,469
<u>478,821</u>	<u>200</u>	<u>3,779</u>	<u>4,104</u>	<u>2,166,607</u>	<u>2,166,607</u>
10,098	-	-	-	122,367	122,367
(10,098)	-	-	-	67,275	67,275
-	-	-	-	189,642	189,642
<u>\$ 478,821</u>	<u>\$ 200</u>	<u>\$ 3,779</u>	<u>\$ 4,104</u>	<u>\$ 2,356,249</u>	<u>\$ 2,356,249</u>

**MIDLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002**

Data Control Codes	203 Child Care Development Block Grant	204 ESEA Title IV Safe & Drug Free Schools	205 Head Start	210 ESEA II, B Professional Development
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 130	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	9,000	90,482	1,816,687	142,747
5020 Total Revenues	<u>9,000</u>	<u>90,482</u>	<u>1,816,817</u>	<u>142,747</u>
EXPENDITURES:				
Current:				
0011 Instruction	-	-	1,045,226	-
0012 Instructional Resources & Media Services	-	-	48,130	-
0013 Curriculum & Instructional Staff Development	-	-	33,383	142,747
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	155,788	-
0031 Guidance, Counseling & Evaluation Services	1,850	90,482	1,099	-
0033 Health Services	-	-	267,173	-
0034 Student (Pupil) Transportation	-	-	2,525	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	3,275	-
0051 Plant Maintenance and Operations	-	-	2,135	-
0061 Community Services	7,150	-	258,083	-
6030 Total Expenditures	<u>9,000</u>	<u>90,482</u>	<u>1,816,817</u>	<u>142,747</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	219 ESEA VII, A Bilingual Education	220 Adult Basic Education Federal	222 Learn and Serve America	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
\$ -	\$ -	\$ 998	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
3,016,207	163,156	235,664	73,493	5,000	1,702,442	82,684	5,314
<u>3,016,207</u>	<u>163,156</u>	<u>236,662</u>	<u>73,493</u>	<u>5,000</u>	<u>1,702,442</u>	<u>82,684</u>	<u>5,314</u>
2,496,330	53,245	-	-	2,972	1,126,340	82,684	2,152
119,568	-	-	-	-	-	-	-
54,310	6,648	236,662	73,493	-	3,887	-	-
64,226	55,000	-	-	-	270,781	-	3,162
20,859	-	-	-	-	-	-	-
-	-	-	-	-	174,270	-	-
59,464	7,322	-	-	-	910	-	-
-	-	-	-	-	126,254	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	2,028	-	-	-
201,450	40,941	-	-	-	-	-	-
<u>3,016,207</u>	<u>163,156</u>	<u>236,662</u>	<u>73,493</u>	<u>5,000</u>	<u>1,702,442</u>	<u>82,684</u>	<u>5,314</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MIDLAND INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2002**

Data Control Codes	227 IDEA - Part B Deaf	228 IDEA - Part B Preschool Deaf	235 ESEA Title VI Innovative Education	242 Summer Feeding Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 3,275
5800 State Program Revenues	-	-	-	115,237
5900 Federal Program Revenues	9,100	3,893	136,285	43,637
5020 Total Revenues	<u>9,100</u>	<u>3,893</u>	<u>136,285</u>	<u>162,149</u>
EXPENDITURES:				
Current:				
0011 Instruction	9,100	3,893	4,370	-
0012 Instructional Resources & Media Services	-	-	8,017	-
0013 Curriculum & Instructional Staff Development	-	-	108,358	-
0021 Instructional Leadership	-	-	15,540	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling & Evaluation Services	-	-	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	43,637
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Plant Maintenance and Operations	-	-	-	-
0061 Community Services	-	-	-	-
6030 Total Expenditures	<u>9,100</u>	<u>3,893</u>	<u>136,285</u>	<u>43,637</u>
1200 Net Change in Fund Balance	-	-	-	118,512
0100 Fund Balance - September 1 (Beginning)	-	-	-	<u>29,040</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,552</u>

244 Vocational Ed Basic Grant	253 IDEA Part C Deaf	255 ESEA II,A Principal Training	256 ESEA, I Improving Teaching	259 Matching for Library Purchase	262 Title II, Part D Technology	282 Magnet Schools Assistance	284 Air Force Junior ROTC
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
252,565	720	710,506	177,596	5,234	775	1,059,597	6,394
<u>252,565</u>	<u>720</u>	<u>710,506</u>	<u>177,596</u>	<u>5,234</u>	<u>775</u>	<u>1,059,597</u>	<u>6,394</u>
207,880	720	699,585	90,497	-	-	867,100	6,394
-	-	-	-	5,234	-	66,817	-
19,251	-	10,576	85,530	-	-	35,248	-
7,893	-	345	-	-	-	-	-
-	-	-	1,569	-	-	23,148	-
17,541	-	-	-	-	-	9,262	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	15,000	-
-	-	-	-	-	775	43,022	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>252,565</u>	<u>720</u>	<u>710,506</u>	<u>177,596</u>	<u>5,234</u>	<u>775</u>	<u>1,059,597</u>	<u>6,394</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MIDLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002**

Data Control Codes	285 C.O.P.S.	383 Professional Staff Development	386 Regional Day School for the Deaf	392 Non-Ed. Community Based Support
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	2,000	175,501	-
5900 Federal Program Revenues	-	-	-	44,214
5020 Total Revenues	<u>-</u>	<u>2,000</u>	<u>175,501</u>	<u>44,214</u>
EXPENDITURES:				
Current:				
0011 Instruction	-	-	175,501	39,920
0012 Instructional Resources & Media Services	-	-	-	-
0013 Curriculum & Instructional Staff Development	-	2,000	-	1,921
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling & Evaluation Services	-	-	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Plant Maintenance and Operations	-	-	-	-
0061 Community Services	-	-	-	2,373
6030 Total Expenditures	<u>-</u>	<u>2,000</u>	<u>175,501</u>	<u>44,214</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

393 Texas Successful Schools Prog.	394 Pregnancy, Education and Parenting	395 Guidance for At-Risk Students	396 Communities in Schools	397 Advanced Placement Incentives	399 Campus Restructuring	401 Optional Extended Year Program	406 ESC Teacher Recruitment
\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ -
3,644	105,720	310,000	3,495	17,287	21,709	267,409	308,526
-	-	-	-	-	-	-	-
<u>3,644</u>	<u>105,720</u>	<u>310,000</u>	<u>3,495</u>	<u>17,288</u>	<u>21,709</u>	<u>267,409</u>	<u>308,526</u>
3,644	-	-	667	-	4,234	240,853	308,526
-	-	-	-	-	-	-	-
-	-	-	2,828	-	8,036	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,830	-
-	-	313,959	-	-	-	6,695	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	13,707	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	105,720	(3,959)	-	17,288	9,439	3,324	-
<u>3,644</u>	<u>105,720</u>	<u>310,000</u>	<u>3,495</u>	<u>17,288</u>	<u>21,709</u>	<u>267,409</u>	<u>308,526</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MIDLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002**

Data Control Codes	409 Basic Skills Program High School	411 Technology Allotment	413 Telecom Infrastruct. Fund	414 Texas Reading Initiative
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	112,500	574,170	441,908	143,130
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>112,500</u>	<u>574,170</u>	<u>441,908</u>	<u>143,130</u>
EXPENDITURES:				
Current:				
0011 Instruction	112,500	185,515	402,567	127,109
0012 Instructional Resources & Media Services	-	-	-	-
0013 Curriculum & Instructional Staff Development	-	366,278	39,341	16,021
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling & Evaluation Services	-	-	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Plant Maintenance and Operations	-	-	-	-
0061 Community Services	-	-	-	-
6030 Total Expenditures	<u>112,500</u>	<u>551,793</u>	<u>441,908</u>	<u>143,130</u>
1200 Net Change in Fund Balance	-	22,377	-	-
0100 Fund Balance - September 1 (Beginning)	-	<u>19,713</u>	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 42,090</u>	<u>\$ -</u>	<u>\$ -</u>

415 Kindergarten and Pre-K Grants	427 Student Success Initiative	465 School to Career Tech	485 Music Plus Program	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 2,488	\$ 30,772	\$ 37,664	\$ 37,664
423,985	-	-	-	3,026,221	3,026,221
-	-	-	-	9,793,392	9,793,392
<u>423,985</u>	<u>-</u>	<u>2,488</u>	<u>30,772</u>	<u>12,857,277</u>	<u>12,857,277</u>
422,985	-	2,488	25,601	8,750,598	8,750,598
1,000	-	-	-	248,766	248,766
-	-	-	3,295	1,249,813	1,249,813
-	-	-	-	416,947	416,947
-	-	-	1,876	206,070	206,070
-	-	-	-	615,158	615,158
-	-	-	-	334,869	334,869
-	-	-	-	142,486	142,486
-	-	-	-	43,637	43,637
-	-	-	-	15,000	15,000
-	-	-	-	47,072	47,072
-	-	-	-	4,163	4,163
-	-	-	-	641,809	641,809
<u>423,985</u>	<u>-</u>	<u>2,488</u>	<u>30,772</u>	<u>12,716,388</u>	<u>12,716,388</u>
-	-	-	-	140,889	140,889
-	-	-	-	48,753	48,753
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 189,642</u>	<u>\$ 189,642</u>

**MIDLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
AUGUST 31, 2002**

	801 Scholarship Fund	802 Carver Center Impact	Total Private Purpose Trust Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 62,442	\$ 2,919	\$ 65,361
Other Receivables	-	1,508	1,508
Inventories	-	1,804	1,804
Total Current Assets	<u>62,442</u>	<u>6,231</u>	<u>68,673</u>
Total Assets	<u>62,442</u>	<u>6,231</u>	<u>68,673</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	-	5,605	5,605
Due to Other Funds	6,053	-	6,053
Payable from Restricted Assets	56,280	-	56,280
Total Current Liabilities	<u>62,333</u>	<u>5,605</u>	<u>67,938</u>
Total Liabilities	<u>62,333</u>	<u>5,605</u>	<u>67,938</u>
NET ASSETS			
Unrestricted Net Assets	<u>109</u>	<u>626</u>	<u>735</u>
Total Net Assets	<u>\$ 109</u>	<u>\$ 626</u>	<u>\$ 735</u>

MIDLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED AUGUST 31, 2002

Data Control Codes	801 Scholarship Fund	802 Carver Center Impact	Total Private Purpose Trust Funds
ADDITIONS:			
Local and Intermediate Sources	\$ 109	\$ 2,572	\$ 2,681
Total Additions	<u>109</u>	<u>2,572</u>	<u>2,681</u>
DEDUCTIONS:			
Supplies and Materials	-	111	111
Other Operating Costs	-	3,657	3,657
Total Deductions	<u>-</u>	<u>3,768</u>	<u>3,768</u>
Total Deductions	<u>327</u>	<u>1,878</u>	<u>2,205</u>
 Change in Net Assets	 109	 (1,196)	 (1,087)
 Total Net Assets - September 1 (Beginning)	 <u>-</u>	 <u>1,822</u>	 <u>1,822</u>
 Total Net Assets - August 31 (Ending)	 <u>\$ 109</u>	 <u>\$ 626</u>	 <u>\$ 735</u>

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MIDLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2002

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1993 and prior years	\$ 0.33800	\$ 0.14200	\$ 3,609,748,861
1994	1.25370	0.13360	3,606,422,230
1995	1.25370	0.13360	3,649,508,013
1996	1.25730	0.13000	3,794,946,558
1997	1.25470	0.12900	3,697,198,378
1998	1.25470	0.19400	3,801,948,349
1999	1.39870	0.13000	4,035,783,714
2000	1.45870	0.11000	3,934,717,125
2001	1.50000	0.13900	4,000,531,777
2002 (School year under audit)	1.50000	0.11000	4,619,522,238
1000 TOTALS			

	(10) Beginning Balance 9/1/2001	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2002
\$	206,611	\$ -	\$ 10,501	\$ 3,118	\$ 59,955	\$ 152,887
	107,141	-	8,943	3,635	10,097	100,060
	115,594	-	8,907	949	7,893	104,659
	129,980	-	23,736	(4,486)	8,267	113,631
	139,707	-	26,841	2,760	40,288	118,997
	187,090	-	39,686	6,136	77,432	150,395
	296,046	-	82,349	7,654	147,414	218,699
	587,939	-	227,256	17,137	226,329	353,458
	1,247,616	-	556,351	51,555	897,861	569,875
	-	72,900,392	66,106,481	4,847,809	(1,946,102)	1,537,571
\$	<u>3,017,724</u>	\$ <u>72,900,392</u>	\$ <u>67,091,051</u>	\$ <u>4,936,267</u>	\$ <u>(470,566)</u>	\$ <u>3,420,232</u>

MIDLAND ISD
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2003-2004
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2002

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 266,000	\$ 1,629,118	\$ -	\$ -	\$ 1,895,118
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	-	65,932	-	-	65,932
6212	Audit Services	-	-	-	17,000	-	-	17,000
6213	Tax Appraisal and Collection	-	1,103,793	-	-	-	-	1,103,793
621X	Other Professional Services	23	-	-	102,466	-	-	102,489
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	-	-
6240	Contr. Maint. and Repair	-	-	-	8,849	-	-	8,849
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	17,295	-	5,286	100,056	-	-	122,637
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	750	-	750
63XX	Other Supplies Materials	619	-	3,985	82,616	-	-	87,220
6410	Travel, Subsistence, Stipends	11,439	-	8,227	55,332	-	-	74,998
6420	Ins. and Bonding Costs	-	-	-	21,092	-	-	21,092
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	245	-	9,101	-	-	-	9,346
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 29,621	\$ 1,103,793	\$ 292,599	\$ 2,082,460	\$ 750	\$ -	\$ 3,509,223

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 136,326,404
 LESS: Deductions of Unallowable Costs

FISCAL YEAR	
Total Capital Outlay (6600)	(10) \$ 2,487,530
Total Debt & Lease(6500)	(11) 1,828,706
Plant Maintenance (Function 51, 6100-6400)	(12) 13,246,608
Food (Function 35, 6341 and 6499)	(13) 2,121,021
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	2,082,460
SubTotal:	21,766,325
Net Allowed Direct Cost	\$ 114,560,079
CUMULATIVE	
Total Cost of Buildings before Depreciation (1520)	(15) \$ 133,869,960
Historical Cost of Building over 50 years old	(16) \$ 3,653,771
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 13,250,632
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ 212,713
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ 25,759

(8) NOTE A: \$55,944 in Function 53 expenditures are included in this report on administrative costs.

MIDLAND ISD
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2002

UNAUDITED

1	Total General Fund Balance as of 8/31/02		\$ 19,375,840
2	Total Reserved Fund Balance - General Fund Only	\$ 2,516,854	
3	Total Designated Fund Balance - General Fund Only	-	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	9,526,761	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/02-5/31/03).	<u>9,755,404</u>	
6	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5)		<u>21,799,019</u>
7	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 6)		<u>\$ (2,423,179)</u>

Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Balance:

**MIDLAND INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2002**

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,809,242	\$ 2,329,243	\$ 2,225,003	\$ (104,240)
5900	Federal Program Revenues	5,038,261	5,038,261	5,095,001	56,740
5020	Total Revenues	6,847,503	7,367,504	7,320,004	(47,500)
EXPENDITURES:					
0035	Food Services	6,847,503	6,847,503	6,545,170	302,333
6030	Total Expenditures	6,847,503	6,847,503	6,545,170	302,333
1200	Net Change in Fund Balances	-	520,001	774,834	254,833
0100	Fund Balance - September 1 (Beginning)	2,554,016	2,554,016	2,554,016	-
3000	Fund Balance - August 31 (Ending)	\$ 2,554,016	\$ 3,074,017	\$ 3,328,850	\$ 254,833

**MIDLAND INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2002**

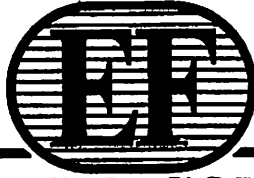
Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 4,971,000	\$ 4,971,000	\$ 5,129,627	\$ 158,627
5800	State Program Revenues	-	2,510,965	3,292,468	781,503
5020	Total Revenues	4,971,000	7,481,965	8,422,095	940,130
EXPENDITURES:					
0071	Debt Service - Principal on long-term debt	7,481,965	2,783,475	4,925,000	(2,141,525)
0171	Debt Service - Interest on long-term debt	-	4,698,490	2,546,787	2,151,703
6030	Total Expenditures	7,481,965	7,481,965	7,471,787	10,178
1200	Net Change in Fund Balances	(2,510,965)	-	950,308	950,308
0100	Fund Balance - September 1 (Beginning)	2,891,602	2,891,602	2,891,602	-
3000	Fund Balance - August 31 (Ending)	\$ 380,637	\$ 2,891,602	\$ 3,841,910	\$ 950,308

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FEDERAL AWARDS SECTION

MEMORANDUM FOR THE DIRECTOR

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ELMS, FARIS & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

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

Members of the Board of Trustees:

We have audited the financial statements of Midland Independent School District (the "District") as of and for the year ended August 31, 2002, and have issued our report thereon dated January 13, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including the Public Funds Investment Act, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 13, 2003.

Internal Control Over Financial Reporting

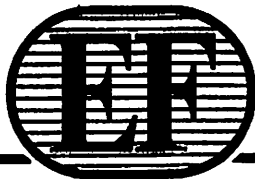
In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 02-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information and use of the audit committee, management, federal awarding agencies, pass-through entities, and for filing with the TEA, and is not intended to be and should not be used by anyone other than those specified parties.

Elms, Faris & Company, LLP

Midland, Texas
January 13, 2003



ELMS, FARIS & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Members of the Board of Trustees:

Compliance

We have audited the compliance of Midland Independent School District (the "District") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2002. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's August 31, 2002 compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2002. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, federal awarding agencies, pass-through entities, and for filing with the TEA, and is not intended to be and should not be used by anyone other than those specified parties.

Elms, Faris & Company, LLP

Midland, Texas
January 13, 2003

**MIDLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2002**

SUMMARY OF THE AUDITORS' RESULTS	
PROGRAM	DESCRIPTION
Type of Report of Financial Statements	Unqualified opinion
Reportable Condition	02-1
Material Weaknesses Involving Reportable Conditions	None
Noncompliance material to the financial statements	No instances of noncompliance.
Type of Report on Compliance with major programs	Unqualified opinion
Findings and Questioned Costs for Federal Awards as Defined in OMB Circular A-133	No material findings or questioned costs.
Major Federal Programs	84.165 Magnet School Assistance 84.010 ESEA Title I, Part A 10.555 National School Breakfast Program 84.011 ESEA Title I, Part C 84.281 ESEA Title II, Part B Eisenhower
	\$300,000
Low Risk Auditee Statements	Midland Independent School District was not classified as a low-risk auditee in the context of OMB Circular A-133.
FINDINGS RELATING TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED UNDER GAGAS	02-1
FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS	None

**MIDLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2002**

Reference Number: 02-1

Condition:	During the course of our audit we noted an out of balance journal entry and ten out of balance general ledgers funds.
Criteria:	Proper accounting based on accounting principles generally accepted in the United States of America, which include balanced journal entries and balanced general ledgers, should always be followed.
Effect:	A liability account was understated and ten funds were out of balance.
Cause:	Lack of internal control review of accounting transactions.
Recommendation:	The District should consider implementing a review process on a regular basis for accounting transactions posted to the general ledger.
Management Response:	Management will review and approve all journal vouchers and verify general ledger totals on a monthly basis.

**MIDLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2002**

PROGRAM

STATUS OF PRIOR
FINDING/NONCOMPLIANCE

NO PRIOR YEAR FINDINGS

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ANN ARBOR MI 48106-1500

**MIDLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2002**

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF DEFENSE</u>			
<u>Direct Programs</u>			
Air Force Junior ROTC	N/A	N/A	\$ 6,394
Total Direct Programs			6,394
TOTAL DEPARTMENT OF DEFENSE			6,394
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<u>Direct Programs</u>			
Magnet Schools Assistance	84.165A	S165A010077	1,059,597
ESEA Title VII - Part A, Bilingual Education	84.195	T195B000076	235,664
ESEA Title VII-Bilingual Professional Development	84.1955	T195B000076	73,493
ESEA Title IV-Safe & Drug Free Schools, Mini-Grant	84.296A	165901047	9,000
Total Direct Programs			1,377,754
<u>Passed Through State Department of Education</u>			
ESEA Title I - Part A, Improving Basic Programs	84.010A	2610101165901	3,016,207
ESEA Title I - Comprehensive School Reform	84.010B	3610101165901	177,596
ESEA Title I - Part C, Migratory Children	84.011	2615001165901	163,156
IDEA - Part B, Formula	84.027	366000116590133	1,702,442
IDEA - Part B, Discretionary	84.027	366000116590133	5,314
IDEA - Part B, Formula Deaf	84.027	266000116590122	9,100
Total CFDA Number 84.027			1,716,856
Vocational Education - Basic Grant	84.048	342000616590118	252,565
IDEA - Part B, Preschool	84.173	366100116590133	82,684
IDEA - Part B, Preschool Deaf	84.173	266100116590122	3,893
Total CFDA Number 84.173			86,577
IDEA - Part C, Deaf Early Intervention	84.181A	239110116590122	720
ESEA Title IV - Part A, Safe & Drug Free Schools	84.186A	3691001165901	90,482
ESEA Title II - Part B, Eisenhower Prof. Dev.	84.281A	2694001165901	142,747
ESEA Title VI - Innovative Education Strategies	84.298	16850132140196	136,285
ESEA Title VI - Class Size Reduction Program	84.340	2686001165901	710,506
ESEA Title VII - Innovative Ed	84.298	2685001165901	5,234
ESEA Title II - Part D, Technology	84.318	2630001165901	775
Investment Capital Grant	84.216	110011735059074	44,214
Total Passed Through State Department of Education			6,543,920
TOTAL DEPARTMENT OF EDUCATION			7,921,674
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<u>Passed Through State Department of Education</u>			
Head Start	93.600	G-06CH699432	1,816,687

**MIDLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2002**

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
National and Community Service Trust Act	94.004	253000112014	\$ 5,000
Total Passed Through State Department of Education			<u>1,821,687</u>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,821,687</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<u>Passed Through State Department of Education</u>			
National School Breakfast & Lunch Program*	10.555		5,095,001
Summer Feeding Program	10.559	165-1002	<u>43,637</u>
Total Passed Through State Department of Education			<u>5,138,638</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>5,138,638</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 14,888,393</u>

*Clustered Programs as required by Compliance Supplement March, 2002

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**MIDLAND INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2002**

1. The District utilized the fund types specified in the Resource Guide.

Special Revenue Funds – are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in the Special Revenue Fund, a component of the Governmental Fund type. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund Types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term-Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H. Period of Availability of Federal funds, Part 3, OMB Circular A-133 Compliance Supplement – Provisional 6/97.