



Financial Statements

Ten Month Period Ended June 30, 2018

# Midland Independent School District

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**Certificate of the Board**

Midland Independent School District  
Name of School District

Midland  
County

165-901  
County - District Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  approved  disapproved for the ten month period ended June 30, 2018 at a meeting of the Board of Trustees of such school district on the 12<sup>th</sup> day of November 2018.

*James Fuller*  
Signature of Board Secretary

*Rick Davis*  
Signature of Board President

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



## Independent Auditor's Report

The Board of Trustees of  
Midland Independent School District  
Midland, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Midland Independent School District (the District) as of and for the ten month period ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the ten month period then ended in conformity with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As discussed in Notes 4 and 19 to the financial statements, the District has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of September 1, 2017. Our opinions are not modified with respect to this matter.

## **Restatement of Prior Period Fund Balance and Net Position**

As discussed in Note 19 to the financial statements, management of the District has determined that campus activity funds had previously been commingled with general fund and student activity funds and liabilities in the fiduciary funds had been overstated, which has resulted in a restatement of beginning fund balances and net position. Our opinions are not modified with respect to this matter.

## **Change in Fiscal Year**

As discussed in Note 1 to the financial statements, the District changed its fiscal year from a year-end of August 31 to June 30 effective this reporting period. As such, the financial statements are presented for a ten month period of September 1, 2017 through June 30, 2018. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension plan schedules and OPEB plan schedules on pages 5 through 15 and 66 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The combining nonmajor fund financial statements and the TEA required schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for

purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements.

The combining nonmajor fund financial statements, the TEA required schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, the TEA required schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Abilene, Texas  
November 12, 2018

The management of Midland Independent School District (“the District”) offer readers of the annual financial report this narrative discussion and analysis of the District’s financial performance for the ten month period ended June 30, 2018. Readers are encouraged to consider the information presented here in conjunction with the District’s financial statements, which follow this analysis.

*The 76th Legislature enacted House Bill 98 allowing school districts to change their fiscal year-end from August 31 to June 30. The District elected to take advantage of this opportunity and chose to change its fiscal year beginning with the 2017-2018 reporting period. As a result, the fiscal year 2018 financial statements are presented for a ten-month period of September 1, 2017 through June 30, 2018.*

## FINANCIAL HIGHLIGHTS

- At the close of the ten-month period ended June 30, 2018, the District’s assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources. Net position was \$22.9 million. Net investments in capital assets was \$78 million.
- The government-wide statements reported total revenues of \$320.5 million which exceeded total expenses of \$239 million and resulted in a net increase of net position of \$81.5 million.
- As of September 1, 2017, the District was required to adopt GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position for governmental activities was restated to retroactively remove the prior OPEB liability reported under GASB Statement No. 45 and adopt the provisions of GASB Statement No. 75 to report the beginning total OPEB liability. The restatement resulted in a decrease of \$136 million to the District’s net position.
- The governmental funds financial statements reported combined ending fund balance of \$95.5 million for the ten-month period ending June 30, 2018, an increase of \$45.3 million in comparison with the prior twelve-month period. This balance consists of \$79.5 million in the General Fund which is unassigned and available for spending at the District’s discretion. Restricted fund balance totals \$13 million and is included in the Debt Service Fund, National School Breakfast and Lunch Program, and Non-Major Funds. Committed fund balance is \$1.2 million and consists of amounts held in campus activity funds. Non-spendable fund balance is \$1.6 million.
- The General Fund had \$248 million in revenues, which primarily consisted of state aid and property taxes, and \$209 million in expenditures which resulted in an increase in fund balance by \$38 million for the ten-month period ended June 30, 2018.
- During the fiscal year, the District issued \$54.3 million in Unlimited Tax Refunding Bonds that resulted in an economic gain of \$2.4 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management’s discussion and analysis (this section), the basic financial statements, and required supplementary information.



The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
  - The *governmental funds* statements tell how general government services were financed in the short term as well as what remains for future spending.
  - *Proprietary fund* statements offer short- and long-term financial information about the activities the government operates like businesses.
  - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

Major features of the District's *government-wide* and *fund financial statements* are summarized below:

Type of Statement	Government-Wide	Fund Financials		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Scope</b>	Entire District's government (except fiduciary funds)	The activities of the District that are not propriety or fiduciary	Activities the District operates similar to private business-health insurance and worker's compensation	Instances in which the District is the trustee or agent for someone else's resources
<b>Required Financial Statements</b>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenditures, and changes in fund balance</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of change in net position</li> </ul>
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/Liability Information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after year-end, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenue and expenses during the year, regardless of when cash is received or paid.	Agency funds do not report revenue and expenditures.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector company. These statements include:

**The Statement of Net Position.** The Statement of Net Position (Exhibit A-1) focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of what the District owns (assets), what it owes (liabilities), and the net difference (net position). Net position may be further separated into amounts restricted for specific purposes and unrestricted amounts. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial health is improving or deteriorating.

**The Statement of Activities.** The Statement of Activities (Exhibit B-1) presents information showing how the net position of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing for when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

To assess the overall health of the District, additional nonfinancial factors should be considered, such as changes in the District's property tax base, student enrollment, and facility conditions.

The government-wide financial statements of the District are divided into two categories:

- Governmental activities—Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.
- Component units—The District includes another entity in its report. Although legally separate, "component units" are important because the District is financially accountable for them. Midland Education Foundation, Inc., a nonprofit organization that provides support to the District, teachers, and students, is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, rather than the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required by State law and by bond covenants, while many other funds are established by the District to help manage resources for particular purposes and compliance with various grant provisions. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out of those funds and (2) the balances left at year-end that are available for spending in future periods. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's educational programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explain the relationship (or differences) between them.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, National School Breakfast and Lunch Program,

and the Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds, including the Capital Outlay Fund, are combined into a single aggregated presentation as nonmajor funds.

**Proprietary Funds.** Services for which the District charges users (other units of the District) a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The District uses internal service funds to report activities that provide supplies and services for the District's Self-insurance program and Employee Housing fund.

**Fiduciary Funds.** The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, may be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. Fiduciary funds are excluded from the District's government-wide financial statements because these resources are not available to finance District operations.

### Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information, including schedules required by the Texas Education Agency.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's combined net position increased \$81.5 million from the previous year (as restated) as can be seen on the following table.

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

	2018		Governmental Activities		2017 (restated)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 125,816,998	29	\$ 60,011,757	16	\$ 65,805,241	110		
Capital assets, net of accumulated depreciation	305,072,608	71	312,731,902	84	(7,659,294)	(2)		
Total assets	430,889,606	100	372,743,659	100	58,145,947	16		
Total deferred outflows of resources	20,522,734	100	23,720,265	100	(3,197,531)	(13)		
Other liabilities	30,834,657	8	13,531,595	3	17,303,062	128		
Long-term liabilities outstanding	352,785,900	92	433,744,478	97	(80,958,578)	(19)		
Total liabilities	383,620,557	100	447,276,073	100	(63,655,516)	(14)		
Total deferred inflows of resources	44,884,338	100	7,759,156	100	37,125,182	478		
Net position:								
Net investment in capital assets	78,043,129	341	73,869,878	95	4,173,251	6		
Restricted	12,301,504	1	4,808,346	6	7,493,158	156		
Unrestricted	(67,437,188)	(3)	(137,249,529)	(2)	69,812,341	(51)		
<b>Total net position</b>	<b>22,907,445</b>	<b>100</b>	<b>(58,571,305)</b>	<b>100</b>	<b>81,478,750</b>	<b>(139)</b>		

The District's capital assets, which consist of the District's land, buildings, building improvements, vehicles, and equipment, represent about 71 percent of total assets. The remaining assets consist mainly of investments, cash, grants, property taxes receivable and prepaid assets.

The District's long-term liabilities include repayment of general obligation bonds (60 percent) and net pension and OPEB liability (32 percent). Other liabilities consist almost entirely of payables on accounts and salaries and benefits (8 percent).

The District's net position includes its investment in capital assets (e.g., land, buildings, and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources (generally property taxes), since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the district's ongoing obligations to students, employees, and creditors.

The change in net position is attributed to the following:

- Due to the shortened ten-month reporting period, current assets, specifically, investments and property tax and other receivables, had a higher ending balance than prior year. There was an increase in the property tax base which resulted in additional property tax revenues of approximately \$32.5 million during the current fiscal period. In addition, the shortened fiscal period resulted in an increase in current liabilities, specifically, accrued wages payable and Chapter 41 payable to the State.
- No significant capital improvements were conducted during the fiscal year. However, depreciation was recorded, resulting in a decrease in net capital assets.
- The decrease in liabilities is primarily due to the adoption of the provisions of GASB Statement No. 75, which resulted in a restatement of net position as of September 1, 2017. The District also removed a policy to reimburse, upon retirement, accrued sick leave up to 30 days, thus, the accrued liability of \$3.7 million was removed. In addition, the District issued unlimited tax refunding bonds which recognized a premium on the issuance.

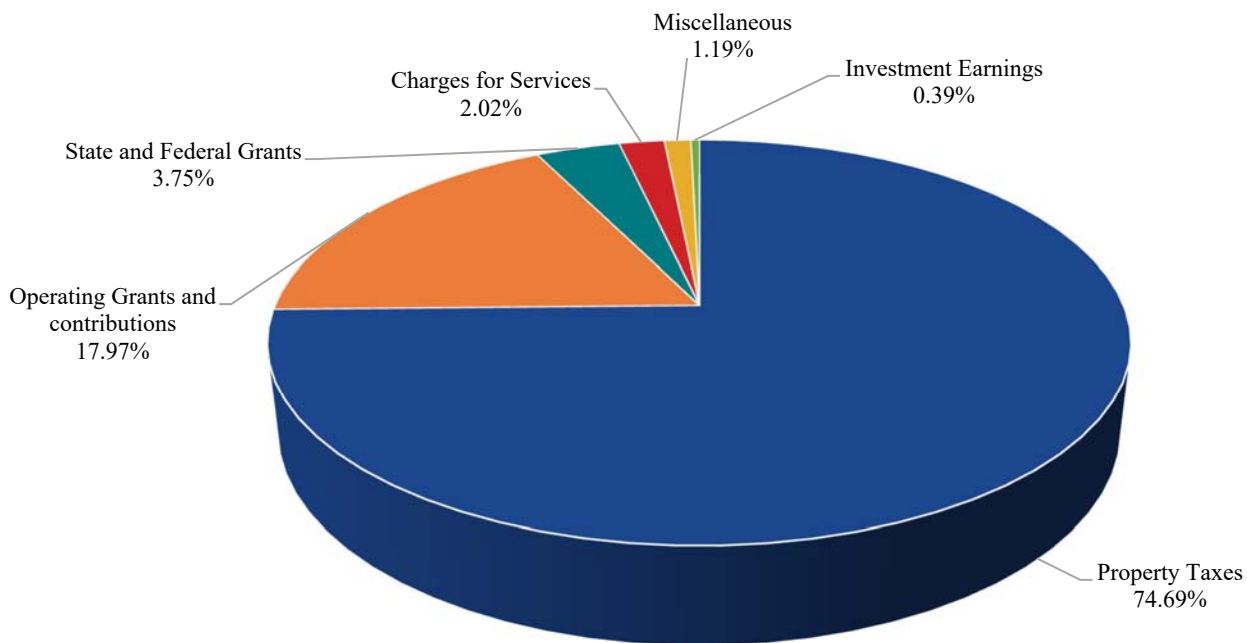
### **Governmental Activities**

Funding for government-wide activities is by the specific program revenue or through general revenues such as property taxes and investment earnings. Revenues for the District's governmental activities increased \$49.5 million while total expenses decreased \$40.6 million which resulted in a net increase of net position of \$81.5 million. However, a prior period adjustment decreasing net position as of September 1, 2017 by \$136 million was posted to adopt the provisions of GASB Statement No. 75.

## Revenues

The District's total revenues were \$320.5 million, representing an increase of \$49.5 million from the previous year. The majority of this increase is due to a 12% increase in the District's assessed valuations which resulted in a \$32.5 million increase in tax revenues from prior year. State aid decreased by \$2.3 million as a result of an increase in local revenue. As seen below, approximately two-thirds of the District's revenue comes from taxes while the remaining one-third comes primarily from program revenue and state and federal sources.

### Governmental Activities Revenue by Source

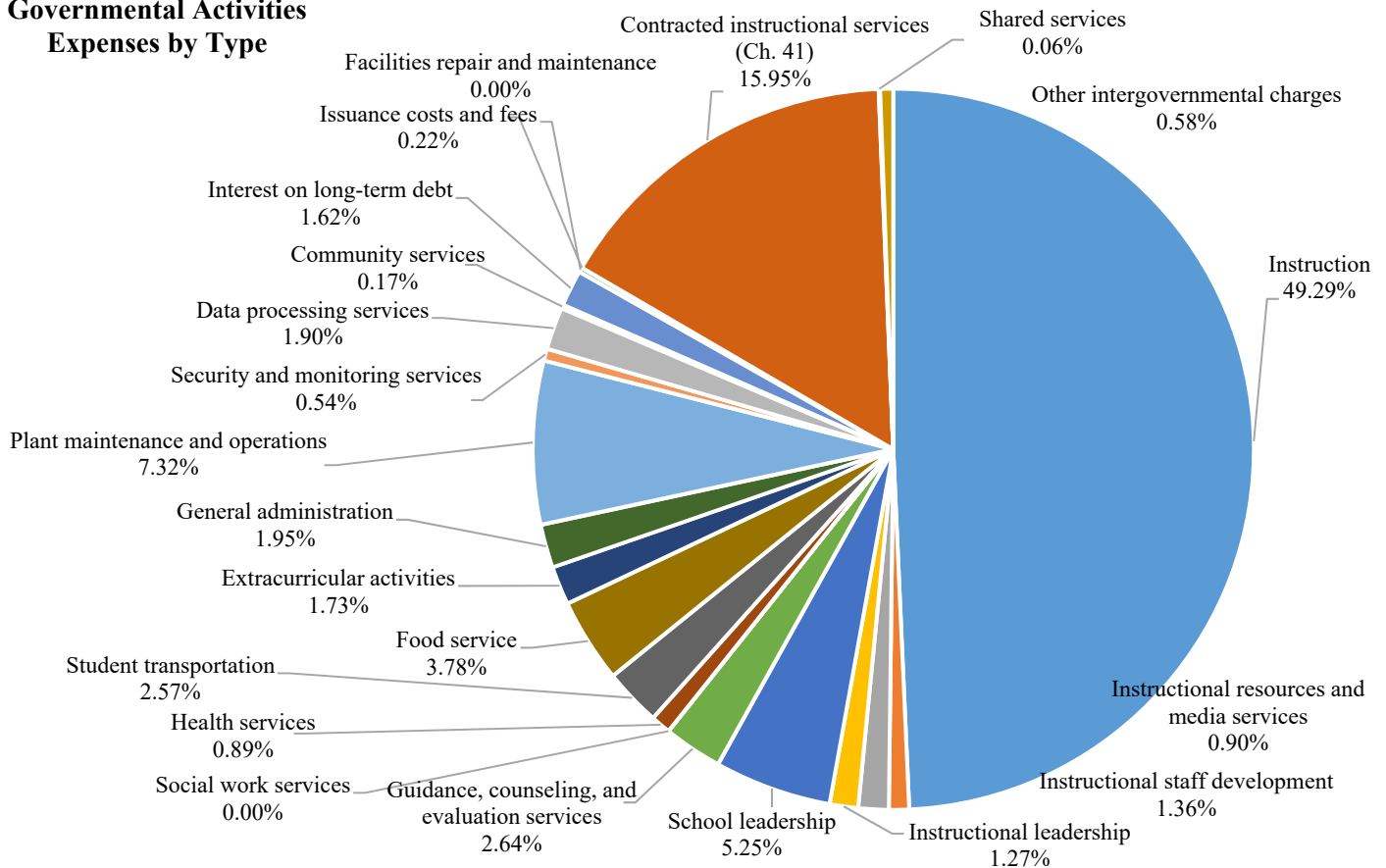


**Expenses**

The District's total expenses were \$239 million, representing a decrease of \$40.6 million from the previous year. The majority of this decrease is due to declining property values from the prior year (fiscal year ending August 31, 2017) and its effect on the District's current year Chapter 41 ("Contracted instructional services") payment - a decrease of \$7.6 million. Additionally, the change in fiscal years resulted in a shortened ten month fiscal period that includes only ten months of expenditures. The District's primary functional expenses are

- Instruction - \$117.8 million, or 49 percent of total expenses
- Chapter 41 ("Contracted instructional service") - \$38 million, or 15.9 percent
- Plant maintenance and operations - \$17.5 million, or 7 percent

**Governmental Activities  
 Expenses by Type**



Midland Independent School District  
Management's Discussion and Analysis  
Ten Months Ended June 30, 2018

In total, governmental activities increased the District's net position by \$81.5 million dollars. Key elements of this change are as follows:

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

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	\$ 6,474,421	2	\$ 6,436,802	2	\$ 37,619	1
Operating grants and contributions	57,594,328	18	41,034,369	15	16,559,959	40
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes, levied for general purpose	220,762,931	69	192,120,690	71	28,642,241	15
Property taxes, levied for debt service	18,617,214	6	14,756,633	5	3,860,581	26
State Aid - Formula Grants	11,349,415	4	14,375,721	5	(2,355,412)	-16
Grants and contributions not restricted to specific programs	670,894	-	-	-	-	-
Investment earnings	1,239,892	-	579,321	-	660,571	114
Miscellaneous	3,802,879	1	1,657,868	1	2,145,011	129
Total revenues	<u>320,511,974</u>	100	<u>270,961,404</u>	100	<u>49,550,570</u>	18
Expenses:						
Instruction	117,835,802	49	128,425,519	46	(10,589,717)	-8
Instructional resources and media services	2,153,150	1	2,415,389	1	(262,239)	-11
Curriculum and instructional staff development	3,247,982	1	6,507,647	2	(3,259,665)	-50
Instructional leadership	3,045,218	1	3,639,042	1	(593,824)	-16
School leadership	12,554,028	5	12,329,298	4	224,730	2
Guidance, counseling, and evaluation services	6,300,169	3	8,165,956	3	(1,865,787)	-23
Social work services	(6,185)	-	265,257	-	(271,442)	-102
Health services	2,130,803	1	2,131,590	1	(787)	-
Student transportation	6,149,964	3	7,037,593	3	(887,629)	-13
Food service	9,025,879	4	12,679,274	5	(3,653,395)	-29
Extracurricular activities	4,131,906	2	4,800,531	2	(668,625)	-14
General administration	4,663,275	2	7,875,522	3	(3,212,247)	-41
Plant maintenance and operations	17,502,720	7	18,480,798	7	(978,078)	-5
Security and monitoring services	1,290,287	1	1,374,708	-	(84,421)	-6
Data processing services	4,543,498	2	4,320,536	2	222,962	5
Community services	397,870	-	498,527	-	(100,657)	-20
Interest on long-term debt	3,866,791	2	8,623,459	3	(4,756,668)	-55
Issuance costs and fees	527,320	-	320,778	-	206,542	64
Facilities repair and maintenance	1,393	-	2,357,197	1	(2,355,804)	-100
Contracted instructional services between schools	38,120,581	16	45,806,661	16	(7,686,080)	-17
Payments related to shared services arrangement	153,947	-	156,500	-	(2,553)	-2
Payments to juvenile justice alternative education programs	-	-	-	-	-	-
Other intergovernmental charges	1,396,826	1	1,467,585	1	(70,759)	-5
Total expenses	<u>239,033,224</u>	100	<u>279,679,367</u>	100	<u>(40,646,143)</u>	-15
Increase in net position before transfers	81,478,750		(8,717,963)		90,196,713	
Transfers	-		-		-	
Change in net position	<u>81,478,750</u>		<u>(8,717,963)</u>		<u>90,196,713</u>	
Net position - beginning	77,468,669		86,186,632		(8,717,963)	
Prior Period Adjustment	(136,039,974)		-		(136,039,974)	
<b>Net position - ending</b>	<u><u>\$ 22,907,445</u></u>		<u><u>\$ 77,468,669</u></u>		<u><u>\$ (54,561,224)</u></u>	

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balance of \$95 million, an increase of \$45 million in comparison with the prior year. Approximately 83 percent of this total amount (\$79.5 million) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending because it has already been 1) used to purchase inventories and food services (\$1.1 million), 2) to purchase services for the next fiscal period (\$589,853), 3) restricted for construction (\$936,547), 4) restricted to pay debt service (\$9.2 million) or 5) for a variety of other restricted purposes (\$3.0 million). The District's committed fund balance consists of campus activity funds (\$1,170,672). Assignments reflect the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds.

**General Fund.** The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$79.5 million, while total fund balance reached \$80.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 37 percent of total General Fund expenditures, while total fund balance represents 38 percent of that same amount.

The fund balance of the District's General Fund increased by \$38.3 million during the current fiscal year. Key factors in this growth are as follows:

- Revenues totaled \$248 million which is a 7 percent increase from previous year. A 12 percent increase in appraised property values increased property tax revenues by \$32.5 million. This was partially offset by the one time contribution of approximately \$11 million made to the District in the prior fiscal year.
- Expenditures totaled \$209 million which is an 8 percent decrease from previous year. This includes a 16 percent decrease in current year Chapter 41 payment due to declining property values from the prior year. In addition, operating expenditures, for items such as utilities and insurance, are reported for a ten-month period.

**Debt Service Fund.** The Debt Service Fund has a total fund balance of \$9.2 million, all of which is reserved for the payment of debt service. The net increase in fund balance was \$6.6 million. The District enacted a \$.0075, or 9 percent, property tax increase for debt service at the beginning of the year. In addition, a 12 percent increase in appraised property values increased property tax revenues by \$3.5 million.

Expenditures decreased 25% over the prior year due to the timing of interest payments due compared to the end of the current fiscal year.

**National School Breakfast/Lunch Program Fund.** The National School Breakfast/Lunch Program fund has a total fund balance of \$3.6 million. The net increase in fund balance during the current year in the Child Nutrition Fund was \$622,958.

**Capital Projects Fund.** The capital projects fund has a total fund balance of \$936,547, all of which is restricted for capital acquisition and improvements. The fund balance decreased by \$145,765 due to expenditures for various improvements across the district's elementary campuses.



**Budgetary Highlights**

The District adopts an annual appropriated budget for the General Fund, the National School Breakfast and Lunch Program, and the Debt Service Fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with statutory requirements.

**General Fund.** The most significant fund for the District is the General Fund, funded primarily through local property tax revenue. The District's budget amendments presented to the Board of Trustees throughout the year are summarized as follows:

- ***Variances of original expenditure budget compared to amended budget.***  
 The amended expenditure budget decreased in the General Fund \$616,743 from the original budget. The final amendment was based on the knowledge of the shortened fiscal year.
- ***Variances of amended budget to actual expenditures.***  
 Expenditures were \$16.9 million less than final budgeted amounts. Due to the shortened fiscal year, salaries and benefits for twelve-month employees and operating costs such as travel, utilities, insurance, and repairs & maintenance, were on a ten-month basis versus a twelve-month basis.
- ***Variances of original revenue budget compared to actual revenue***  
 Local revenues were over budget by \$3.4 million. Local property tax revenue recognized \$2 million more than anticipated. Collection rate on current year levy was at 99.15% compared to the District's average historical collection rate of 98%.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2018, the District had invested \$305 million in a broad range of capital assets, including land, buildings, and equipment. This amount represents a net decrease of \$7.7 million or 2 percent over last year. Major capital asset events conducted during the fiscal year included roof replacements at three locations, purchase of three additional school busses, purchase of one police vehicle, and sale of land. Additional information on the District's capital assets can be found in Note 8 of this report.

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

2018		Governmental Activities			
2017		Increase (Decrease)			
Amount	%	Amount	%	Amount	%
\$ 8,985,930	3	\$ 9,009,142	3	\$ (23,212)	-
292,640,762	96	298,881,279	96	(6,240,517)	(2)
3,445,916	1	3,798,602	1	(352,686)	(9)
-	-	1,042,879	0	(1,042,879)	(100)
<u>\$ 305,072,608</u>	100	<u>\$ 312,731,902</u>	100	<u>\$ (7,659,294)</u>	(2)

**Long-Term Debt**

At the end of 2018, the District had \$352.8 million in long-term liabilities which include general obligation bonds, net pension liability, and net OPEB liability. The District's long-term liabilities decreased by \$81 million.

During the current fiscal year, the District's issued \$54.3 million of unlimited tax refunding bond to refund prior debt and to pay costs of issuance of the bonds. In addition, the District removed a policy to reimburse, upon retirement of employees, accrued sick leave of up to 30 days, thus removing the accrued liability.

Additional information on the District's long-term debt can be found in Note 9 of this report.

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

	Governmental Activities					
	2018		2017 (as restated)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	\$ 229,870,853	65	\$ 237,834,994	81	\$ (7,964,141)	-3
Compensated absences	-	-	3,703,635	1	(3,703,635)	-100
Accretion on CAB, Series 2017	169,259	-	-	-	169,259	-
Net pension liability	44,815,570	13	54,623,985	13	(9,808,415)	-18
Net OPEB liability	77,930,218	22	137,581,864	-	(59,651,646)	100
<b>Totals</b>	<b>\$ 352,785,900</b>	<b>100</b>	<b>\$ 433,744,478</b>	<b>100</b>	<b>\$ (80,958,578)</b>	<b>-19</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The local economy continues to be strong as its primary driver, oil and gas, continues its growth and development. The 2018-19 appraised property values increased by approximately 14.9%. The State funding formulas currently provide that as property tax revenues increase, state funding decreases by a comparable amount. For the 2018-19 year, property tax revenues are budgeted to increase by \$14.4 million.

The Maintenance and Operations (M&O) tax rate remained at \$1.04 per \$100 valuation for the 2018-19 year. The Interest and Sinking (I&S) tax rate decreased by \$0.0075 to \$0.08 per \$100 valuation for the 2018-19 year. The District's 18-19 budget included an estimated 2.5% student enrollment growth.

General Fund expenditures are budgeted to increase by \$24 million over the prior year budgeted expenditures. The state designates the District as Chapter 41 based on the equalization of wealth formula. Major expenditure changes include Chapter 41 recapture, a salary increase of 2 percent, and increases for plant maintenance and operations.

In the past, the oil and gas industry has experienced booms and busts. However, the International Energy Agency predicts that oil produced in the U.S. will account for 80 percent of the growth in global supply through 2025. Most of this growth will come from the Permian Basin.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Financial Services Department at 615 West Missouri Avenue, Midland, TX 79701.

Midland Independent School District  
Statement of Net Position (Exhibit A-1)  
June 30, 2018

<u>Data Control Codes</u>	1 <u>Primary Governmental Activities</u>	<u>Component Unit Midland I.S.D. Education Foundation</u>	
<b>Assets</b>			
1110	Cash and Cash Equivalents	\$ 18,447,165	\$ 2,980,982
1120	Investments - Current	94,086,458	724,810
1210	Property Taxes Receivable (Current)	-	-
1220	Property Taxes Receivable (Delinquent)	10,385,639	-
1230	Allowance for Uncollectible Taxes	(4,545,964)	-
1240	Due from Other Governments	5,572,107	-
1290	Other Receivables	161,008	-
1300	Inventories at Cost	1,101,248	-
1410	Prepayments	609,337	-
<b>Capital assets</b>			
1510	Land	8,985,930	-
1520	Buildings, net	292,640,762	-
1530	Furniture and Equipment, net	3,445,916	-
1000	<b>Total Assets</b>	<b>430,889,606</b>	<b>3,705,792</b>
<b>Deferred Outflows of Resources</b>			
1705	Deferred outflows - pension	15,404,727	-
1706	Deferred outflows - OPEB	845,331	-
1710	Deferred charge on refunding	4,272,676	-
1700	<b>Total deferred outflows of resources</b>	<b>20,522,734</b>	<b>-</b>
<b>Liabilities</b>			
2110	Accounts payable	2,677,414	-
2140	Interest payable	3,419,780	-
2150	Payroll deductions and withholdings	1,340,707	-
2160	Accrued wages payable	11,434,010	-
2180	Due to other governments	8,735,506	-
2200	Accrued liabilities	2,990,580	-
2300	Unearned revenue	236,660	-
<b>Noncurrent liabilities</b>			
2501	Due within one year	8,965,895	-
2502	Due in more than one year	198,904,360	-
2516	Premium on Issuance of Bonds	22,169,857	-
2540	Net pension liabilities	44,815,570	-
2545	Net OPEB liabilities	77,930,218	-
2000	<b>Total liabilities</b>	<b>383,620,557</b>	<b>-</b>

Midland Independent School District  
Statement of Net Position  
June 30, 2018

<u>Data Control Codes</u>	1 <u>Primary Governmental Activities</u>	<u>Component Unit Midland I.S.D. Education Foundation</u>
Deferred Inflows of Resources		
2605	Deferred inflows - pension	10,087,391
2606	Deferred inflows - OPEB	32,598,357
2610	Deferred gain on refunding	2,198,590
2600	Total deferred inflows of resources	44,884,338
Net Position		
3200	Net investment in capital assets	78,043,129
3820	Restricted for grants	2,964,052
3850	Restricted for debt service	9,337,452
3890	Restricted for other purposes	-
3900	Unrestricted	3,705,792
3000	Total net position	(67,437,188)
	<u>\$ 22,907,445</u>	<u>\$ 3,705,792</u>

Midland Independent School District  
Statement of Activities (Exhibit B-1)  
Ten Month Period Ended June 30, 2018

1

Data Control Codes	Functions/Programs	Expenses
	Primary Government	
	Governmental Activities	
11	Instruction	\$ 117,835,802
12	Intructional resources and media services	2,153,150
13	Curriculum and instructional staff development	3,247,982
21	Instructional leadership	3,045,218
23	School leadership	12,554,028
31	Guidance, counseling, and evaluation services	6,300,169
32	Social work services	(6,185)
33	Health services	2,130,803
34	Student transportation	6,149,964
35	Food service	9,025,879
36	Extracurricular activities	4,131,906
41	General administration	4,663,275
51	Plant maintenance and operations	17,502,720
52	Security and monitoring services	1,290,287
53	Data processing services	4,543,498
61	Community services	397,870
72	Interest on long-term debt	3,866,791
73	Issuance costs and fees	527,320
81	Facilities repair and maintenance	1,393
91	Contracted instructional services between schools	38,120,581
93	Payments related to shared services arrangement	153,947
99	Other intergovernmental charges	1,396,826
TG	Total governmental activities	<u>239,033,224</u>
TP	Total primary government	<u>\$ 239,033,224</u>
IC	Component unit	<u>\$ 7,069,064</u>

Midland Independent School District  
Statement of Activities (Exhibit B-1)  
Ten Month Period Ended June 30, 2018

3	4 Program Revenues	5	Net (Expense) Revenue and Changes in Net Position	Component Unit
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Midland I.S.D. Education Foundation
\$ 2,680,905	\$ 31,045,875	\$ -	\$ (84,109,022)	\$ -
-	507,689	-	(1,645,461)	-
-	1,160,979	-	(2,087,003)	-
-	1,648,143	-	(1,397,075)	-
-	3,807,770	-	(8,746,258)	-
-	2,932,104	-	(3,368,065)	-
-	6,199	-	12,384	-
-	518,999	-	(1,611,804)	-
-	1,026,476	-	(5,123,488)	-
3,080,638	8,386,125	-	2,440,884	-
660,041	930,324	-	(2,541,541)	-
-	1,253,851	-	(3,409,424)	-
52,837	3,199,249	-	(14,250,634)	-
-	152,923	-	(1,137,364)	-
-	707,385	-	(3,836,113)	-
-	95,300	-	(302,570)	-
-	214,937	-	(3,651,854)	-
-	-	-	(527,320)	-
-	-	-	(1,393)	-
-	-	-	(38,120,581)	-
-	-	-	(153,947)	-
-	-	-	(1,396,826)	-
<u>6,474,421</u>	<u>57,594,328</u>	<u>-</u>	<u>(174,964,475)</u>	
<u>\$ 6,474,421</u>	<u>\$ 57,594,328</u>	<u>\$ -</u>	<u>\$ (174,964,475)</u>	
<u>\$ -</u>	<u>\$ 7,836,866</u>	<u>\$ -</u>		\$ 767,802
General Revenues:				
Taxes:				
MT	Property taxes, levied for general purposes		220,762,931	-
DT	Property taxes, levied for debt services		18,617,214	-
SF	State Aid - Formula Grants		11,349,415	-
GC	Grants and contributions not restricted to specific programs		670,894	-
IE	Investment earnings		1,239,892	9,509
MI	Miscellaneous		3,802,879	349,952
TR	Total general revenues		<u>256,443,225</u>	<u>359,461</u>
CN	Change in Net Position		81,478,750	1,127,263
NB	Net Position - Beginning		77,468,669	2,578,529
PA	Prior Period Adjustments		(136,039,974)	-
	Beginning Net Position, as restated		<u>(58,571,305)</u>	<u>2,578,529</u>
NE	Net Position - Ending		<u>\$ 22,907,445</u>	<u>\$ 3,705,792</u>

Midland Independent School District  
Balance Sheet – Governmental Funds (Exhibit C-1)  
June 30, 2018

Data Control Codes	199 General Fund	240 National School Breakfast/Lunch Program	599 Debt Service Fund
<b>Assets</b>			
1110	\$ 12,871,033	\$ 1,807,996	\$ -
1120	82,557,236	1,296,685	8,907,989
1210	-	-	-
1220	9,570,501	-	815,138
1230	(4,187,335)	-	(358,629)
1240	3,495,798	35,806	81,423
1260	2,197,047	158,610	-
1290	114,251	-	-
1300	331,357	769,891	-
1410	589,853	-	-
1000	<u>107,539,741</u>	<u>4,068,988</u>	<u>9,445,921</u>
1000a	Total assets and deferred outflows of resources	<u>\$ 107,539,741</u>	<u>\$ 9,445,921</u>
<b>Liabilities</b>			
2110	\$ 1,431,803	\$ 1,455	\$ 400
2150	1,340,707	-	-
2160	10,814,535	26,098	-
2170	1,813,375	436,535	-
2180	8,735,506	-	-
2300	162,671	-	-
2000	<u>24,298,597</u>	<u>464,088</u>	<u>400</u>
<b>Deferred inflows of resources</b>			
2600	2,775,502	-	276,534
	<u>2,775,502</u>	<u>-</u>	<u>276,534</u>
<b>Fund balances</b>			
3410	331,357	769,891	-
3430	589,853	-	-
3450	-	2,835,009	-
3470	-	-	-
3480	-	-	9,168,987
3545	-	-	-
3600	79,544,432	-	-
3000	<u>80,465,642</u>	<u>3,604,900</u>	<u>9,168,987</u>
4000	Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 107,539,741</u>	<u>\$ 9,445,921</u>

Midland Independent School District  
Balance Sheet – Governmental Funds (Exhibit C-1)  
June 30, 2018

Total Nonmajor Funds	Total Governmental Funds
\$ 1,842,118	\$ 16,521,147
933,990	93,695,900
-	-
-	10,385,639
-	(4,545,964)
1,959,080	5,572,107
5,232	2,360,889
46,757	161,008
-	1,101,248
-	589,853
<u>4,787,177</u>	<u>125,841,827</u>
<u>\$ 4,787,177</u>	<u>\$ 125,841,827</u>
\$ 166,967	\$ 1,600,625
-	1,340,707
593,377	11,434,010
1,716,582	3,966,492
-	8,735,506
73,989	236,660
<u>2,550,915</u>	<u>27,314,000</u>
-	3,052,036
-	3,052,036
-	1,101,248
-	589,853
129,043	2,964,052
936,547	936,547
-	9,168,987
1,170,672	1,170,672
-	79,544,432
<u>2,236,262</u>	<u>95,475,791</u>
<u>\$ 4,787,177</u>	<u>\$ 125,841,827</u>



Midland Independent School District

Reconciliation to the Governmental Funds Balance Sheet to the Statement of Net Position (Exhibit C-1r)  
June 30, 2018

Total Fund Balances - Governmental Funds (Exhibit C-1)		\$ 95,475,791
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and employee housing to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		537,314
Capital assets, net of accumulated depreciation, less assets held in internal service funds are not financial resources and therefore are not reported as assets in governmental funds.		304,409,588
Some liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	(207,700,996)	
Deferred charge on refunding	4,272,676	
Deferred gain on refunding	(2,198,590)	
Unamortized premiums on bonds payable	(22,169,857)	
Accumulated accretion on capital appreciation bonds	<u>(169,259)</u>	(227,966,026)
Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(3,419,780)
Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds. These are:		
Deferred resource inflow for property taxes		3,052,036
The government-wide statements includes the District's proportionate share of the TRS net pension liabilities and TRS-Care net OPEB liabilities, as well as certain pension and OPEB related transactions accounted for as deferred inflows and outflows of resources:		
Net pension liability	(44,815,570)	
Deferred outflows of resources - TRS pension	15,404,727	
Deferred inflows of resources - TRS pension	(10,087,391)	
Net OPEB liability	(77,930,218)	
Deferred outflows of resources - TRS-Care OPEB	845,331	
Deferred inflows of resources - TRS-Care OPEB	<u>(32,598,357)</u>	(149,181,478)
Total Net Position - Governmental Activities (Exhibit A-1)		<u>\$ 22,907,445</u>

Midland Independent School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit C-2)  
Ten Month Period Ended June 30, 2018

Data Control Codes		199
		General Fund
	Revenues	
5700	Local and intermediate revenues	\$ 224,976,149
5800	State program revenues	20,293,718
5900	Federal program revenues	2,745,930
5020	Total revenues	248,015,797
	Expenditures	
	Current	
0011	Instruction	106,916,067
0012	Instructional resources and media services	2,016,878
0013	Curriculum and instructional staff development	2,316,067
0021	Instructional leadership	2,411,444
0023	School leadership	11,496,515
0031	Guidance, counseling, and evaluation services	6,101,998
0032	Social work services	186,977
0033	Health services	1,927,848
0034	Student transportation	5,625,197
0035	Food service	-
0036	Extracurricular activities	4,054,499
0041	General administration	4,263,607
0051	Plant maintenance and operations	17,042,101
0052	Security and monitoring services	1,314,689
0053	Data processing services	4,376,164
0061	Community services	273,469
	Debt service	
0071	Principal on long-term debt	-
0072	Interest on long-term debt	-
0073	Issuance costs and fees	-
	Capital outlay	
0081	Facilities acquisition and construction	-
	Intergovernmental	
0091	Contracted instructional services between schools	38,120,581
0093	Payments related to shared service arrangements	153,947
0099	Other intergovernmental charges	1,396,826
6030	Total expenditures	209,994,874
1100	Excess (deficiency) of revenues over (under) expenditures	38,020,923
	Other financing sources (uses)	
7901	Refunding bonds issued	-
7912	Sale of real property	320,100
7916	Premium or (discount) on issuance of bonds	-
8940	Payment to refunded bonds escrow agent	-
7080	Total other financing sources (uses)	320,100
1200	Net change in fund balances	38,341,023
0100	Fund balances, beginning	42,776,819
1300	Prior period adjustment	(652,200)
	Beginning fund balances, as restated	42,124,619
3000	Fund balances, ending	\$ 80,465,642

Midland Independent School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit C-2)  
Ten Month Period Ended June 30, 2018

240 National School Breakfast/Lunch Program	599 Debt Service Fund	Total Nonmajor Funds	98 Total Governmental Funds
\$ 3,101,704	\$ 18,540,540	\$ 464,046	\$ 247,082,439
58,910	214,937	55,925	20,623,490
8,179,552	-	7,760,457	18,685,939
<u>11,340,166</u>	<u>18,755,477</u>	<u>8,280,428</u>	<u>286,391,868</u>
-	-	4,640,385	111,556,452
-	-	22,260	2,039,138
-	-	1,079,311	3,395,378
-	-	785,538	3,196,982
-	-	252,848	11,749,363
-	-	1,379,292	7,481,290
-	-	-	186,977
-	-	61,441	1,989,289
-	-	5,204	5,630,401
10,717,208	-	31,921	10,749,129
-	-	26,174	4,080,673
-	-	1,500	4,265,107
-	-	58,347	17,100,448
-	-	22,277	1,336,966
-	-	18,475	4,394,639
-	-	108,621	382,090
-	8,285,000	-	8,285,000
-	3,893,506	-	3,893,506
-	527,320	-	527,320
-	-	48,345	48,345
-	-	-	38,120,581
-	-	-	153,947
-	-	-	<u>1,396,826</u>
10,717,208	12,705,826	8,541,939	241,959,847
622,958	6,049,651	(261,511)	44,432,021
-	54,335,996	-	54,335,996
-	-	-	320,100
-	8,280,087	-	8,280,087
-	(62,074,057)	-	(62,074,057)
-	542,026	-	862,126
622,958	6,591,677	(261,511)	45,294,147
2,981,942	2,577,310	1,235,380	49,571,451
-	-	1,262,393	610,193
2,981,942	2,577,310	2,497,773	50,181,644
<u>\$ 3,604,900</u>	<u>\$ 9,168,987</u>	<u>\$ 2,236,262</u>	<u>\$ 95,475,791</u>

Midland Independent School District  
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities (Exhibit C-2r)  
Ten Month Period Ended June 30, 2018

Total Net Changes in Fund Balances - Governmental Funds (Exhibit C-3)	\$ 45,294,147
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and employee housing, to appropriate functions to other funds. The change in net position of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.	4,161,347
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. Net increase in accreted interest on capital appreciation bonds of \$169,259 increases long-term liabilities. The issuance of bonds of \$54,335,996 and bond premium of \$2,927,174 are sources of funds in the governmental funds, but the issuance increases long-term liabilities in the statement of net position and is not a source of funds on the statement of activities. Additions to deferred charge on bond refunding of \$2,923,170 increases net position in the government wide financial statements. The net effect of including the 2018 capital outlays of \$1,814,751, debt principal payments of \$8,285,000, debt principal refunded of \$54,340,000, net book value of capital assets disposed of \$91,493, and amortization of deferred charges on refunding of \$432,554 is to increase net position.	9,406,445
2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(9,358,530)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred tax revenue of \$3,052,036 as revenue, removing the prior year's tax collection of \$1,513,565.	1,538,471
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is an increase of \$2,515,630. The net effect is to increase net position.	(2,515,809)
The decrease in compensated absences payable is an expenditure in the governmental funds when paid, but the payment for these is not an expense in the statement of activities. This represents the net decrease to the compensated absences payable.	3,703,636
Bond premiums are recorded as other financing sources when received in the fund financial statements but are capitalized and amortized in the government-wide financial statements. This is the current year amortization.	2,602,311
Changes in the deferred outflows of resources, deferred inflows of resources and net pension liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$823,201. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$1,143,392. The net effect is a decrease in net position.	(320,191)
Changes in the deferred outflows of resources, deferred inflows of resources and net OPEB liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to decrease in the amount of \$98,564. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the OPEB expense must be recognized. These cause the change in net position to increase in the amount of \$27,065,487. The net effect is an increase in net position.	26,966,923
Change in Net Position for Governmental Activities (Exhibit B-1)	\$ 81,478,750

Midland Independent School District  
Statement of Net Position – Proprietary Funds (Exhibit D-1)  
June 30, 2018

<u>Data Control Codes</u>	<u>Governmental Activities Internal Service Funds</u>
Assets	
Current assets	
1110	Cash and cash equivalents \$ 1,926,018
1120	Current investments 390,558
1260	Due from other funds 1,672,008
1410	Prepaid items 19,484
	<u>4,008,068</u>
Total current assets	
Noncurrent assets	
1520	Buildings and improvements, net 663,020
	<u>663,020</u>
Total noncurrent assets	
1000	Total assets <u>4,671,088</u>
Liabilities	
Current liabilities	
2110	Accounts payable 1,076,789
2170	Due to other funds 66,405
2200	Accrued liabilities 2,990,580
	<u>4,133,774</u>
Total current liabilities	
2000	Total liabilities <u>4,133,774</u>
Net Position	
3200	Investment in capital assets 663,020
3900	Unrestricted (125,706)
	<u>537,314</u>
3000	Total net position <u>\$ 537,314</u>

Midland Independent School District  
Statement of Revenues, Expenditures, and Changes in Net Position– Proprietary Funds (Exhibit D-2)  
Ten Month Period Ended June 30, 2018

<u>Data Control Codes</u>	<u>Governmental Activities Internal Service Funds</u>
Operating Revenues	
5700 Local and intermediate revenues	<u>\$ 20,169,361</u>
5020 Total revenues	<u>20,169,361</u>
Operating Expenses	
6200 Professional and contracted services	229,856
6300 Supplies and materials	1,156
6400 Other operating costs	<u>15,785,548</u>
6030 Total expenses	<u>16,016,560</u>
Operating loss	<u>4,152,801</u>
Non-Operating Revenues	
7955 Earnings from temp. deposits and investments	<u>8,546</u>
8030 Total non-operating revenues	<u>8,546</u>
1300 Change in Net Position	4,161,347
0100 Net Position, Beginning	<u>(3,624,033)</u>
3300 Net Position, Ending	<u><u>\$ 537,314</u></u>

Midland Independent School District  
Statement of Cash Flows– Proprietary Funds (Exhibit D-3)  
Ten Month Period Ended June 30, 2018

	Governmental Activities
	Internal Service Funds
Operating Activities	
Cash received from quasi-external operating activities	\$ 18,202,244
Cash payments to suppliers for goods and benefits	(16,599,439)
Net Cash from (used for) Operating Activities	1,602,805
Investing Activities	
Interest and dividends received on investments	8,546
Sale of investments	(96,891)
Net Cash from (used for) Investing Activities	(88,345)
Net Change in Cash and Cash Equivalents	1,514,460
Cash and Cash Equivalents, Beginning of Year	411,558
Cash and Cash Equivalents, End of the Year	\$ 1,926,018
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities	
Operating income	\$ 4,152,801
Depreciation	24,022
Change in assets and liabilities	
Increase in due from other funds	(1,655,187)
Decrease in prepaid insurance	97,422
Increase in accounts payable	89,669
Decrease in due to other funds	(311,930)
Decrease in payable from restricted assets	(793,992)
Net Cash from (used for) Operating Activities	\$ 1,602,805

Midland Independent School District  
Statement of Fiduciary Net Position – Fiduciary Funds (Exhibit E-1)  
June 30, 2018

Data Control Codes	801 Private Purpose Trust Fund	800 Employee Benefits Trust Fund	865 Agency Fund Campus Activity
Assets			
1110	\$ -	\$ 387	\$ 423,026
1120	325,324	-	37,846
1290	-	268,771	-
1000	<u>325,324</u>	<u>269,158</u>	<u>460,872</u>
Liabilities			
2400	61,849	-	-
2190	-	-	460,872
2000	<u>61,849</u>	<u>-</u>	<u>\$ 460,872</u>
Net Position			
3800	<u>263,475</u>	<u>269,158</u>	
	<u>\$ 263,475</u>	<u>\$ 269,158</u>	



Midland Independent School District  
Statement of Change in Net Position – Fiduciary Funds (Exhibit E-2)  
Ten Month Period Ended June 30, 2018

	801 Private Purpose Trust Fund	800 Employee Benefits Trust Fund
Additions		
Contributions		
Private donations	\$ 85	\$ -
Forfeitures	-	40,784
Total contributions	85	40,784
Investment Earnings		
Earnings from temp. deposits and investments	3,577	409
Total investment earnings	3,577	409
Total additions	3,662	41,193
Deductions		
Scholarships awarded	10,083	-
Use of forfeitures	-	45,314
Total deductions	10,083	45,314
Change in Net Position	(6,421)	(4,121)
Net Position, Beginning, as restated	269,896	273,279
Net Position, Ending	\$ 263,475	\$ 269,158

### **Note 1 - Reporting Entity**

The Board of Trustees, a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the Midland Independent School District (the District). The public elects the members of the Board of Trustees. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the TEA or to the State Board of Education are reserved for the trustees, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. The Midland I.S.D. Education Foundation is a component unit of the District. The Foundation’s purpose is to support teachers and students of the District in the advancement of their educational careers and to provide grants for great ideas to develop creative learning in the classroom. It is discretely presented in a separate column on the government-wide financial statements (Exhibits A-1 and B-1) in order to emphasize that it is legally separate from the District.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

House Bill 98 enacted by the 76<sup>th</sup> Legislature of the State of Texas allowed school districts to change their fiscal year-end from August 31 to June 30 beginning with the 2001-2002 fiscal year. The District elected to take advantage of this opportunity and chose to change its fiscal year beginning with the 2017-2018 reporting period. As such, the financial statements are presented for a ten month period of September 1, 2017 through June 30, 2018.

### **Note 2 - Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **Note 3 - Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements, as well as the proprietary and fiduciary fund financial statements, are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

The Proprietary Fund Types and Fiduciary Funds are accounted for using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recognized 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. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

Property taxes and penalties and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

The District reports the following major governmental funds:

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

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

*The Debt Service Fund* – a governmental fund type, 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 nonmajor fund types:

*Special revenue funds* - a governmental fund type, account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The District accounts for each federal and state grant in a separate special revenue fund.

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

The *internal service funds*, a proprietary fund type. Revenues and expenses are related to services provided to organizations inside the District on a cost reimbursement basis. Internal service funds inherently create redundancy because their expenses are recorded a second time in the fund that are billed for the services they provide. Therefore, on the government-wide financial statements, the operations of the internal service funds are consolidated and interfund transactions are eliminated. The District has an internal service fund for health, dental and workers' compensation benefits and another internal service fund for employee housing.

The *fiduciary funds*, the District has the following:

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

*Employee benefit trust funds* – These funds are used to account for other employee benefit funds that are provided by the District.

*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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from *nonoperating items*. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the transportation internal service fund are District contributions for the transportation fund. Operating expenses include depreciation and other operating expense and administrative expense for administering the transportation fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources, as they are needed.

#### **Note 4 - Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity**

##### **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental column in the government-wide financial statements and in the proprietary fund financial statements. The District defines capital assets as assets 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. 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.

Property, plant and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

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

**Inventory**

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

**Long-Term Liabilities**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

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

Deferred outflows/inflows of resources are separate elements of the financial statements. The District has deferred inflows of resources, which arises under the modified accrual basis of accounting, unavailable revenue from property taxes and for its proportionate share of TRS's deferred inflow related to pensions as described in Note 12 and its OPEB liability as described in Note 13. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District has deferred outflows of resources for its proportionate share of TRS's deferred outflow related to pensions as described in Note 12 and for its proportionate share of TRS-Care's deferred outflow related to OPEB as described in Note 13.

### **Pensions**

The fiduciary net position of the TRS has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **OPEB**

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources relating to other-post employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

### **Use of Estimates**

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

### **Implementation of GASB Statement No. 75**

As of September 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expenses. The effect of the implementation of this standard on beginning net position is disclosed in Note 19 and the additional disclosures required by this standard is included in Note 13.

## **Note 5 - Stewardship, Compliance and Accountability**

### Budgetary Information

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's Financial Accounting Resource (FAR) module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund, and the Child Nutrition Program. The remaining special revenue funds adopt project-length budgets that do not correspond to the District's fiscal year.

## **Note 6 - Fair Value Measurements**

GASB Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

## **Note 7 - Detailed Notes on All Funds**

### **Deposits and Investments**

Under Texas state law, the District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent, bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

The District's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes that they complied with all significant requirements of the PFIA and the District's investment policies.

### **Custodial Credit Risk-Deposits**

At June 30, 2018, the District's deposits (cash, certificates of deposit and interest bearing savings accounts including temporary investments) were entirely covered by pledged collateral held by the District's agent bank in the District's name or by federal deposit insurance.

### **Investments**

State statutes and Board policy authorize the District to invest in 1) obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009; 2) certificates of deposit and share certificates as permitted by Government Code 2256.010; 3) fully collateralized repurchase agreements permitted by Government Code 2256.011; 4) a securities lending program as permitted by Government Code 2256.0115; 5) banker's acceptances as permitted by Government Code 2256.013; 6) commercial paper as permitted by Government Code 2256.013; 7) No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014; 8) a guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and 9) public funds investment pools as permitted by Government Code 2256.016. Temporary investments are reported at cost, which approximates market, and are secured, when necessary, by the FDIC or obligations of items 1-4 above at 102% of the investment's market value.

### **Concentration of Credit Risk**

The District's investment policy does not limit investments in any one issuer except that the investment portfolio shall be diversified in terms of investment instruments, maturing scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user.

### **Interest Rate Risk**

The District's investment policy states that any internally created pool fund group of the District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.



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

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares. Audited financial statements of the pool are available at First Public, 12008 Research Blvd., Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

Lone Star Investment Pool is governed by an 11-member board and is a AAA rated investment program tailored to the investment needs of local governments within the state of Texas. Lone Star Investment Pool assists governments across Texas make the most of taxpayer dollars. Local officials can improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund in full compliance with the Texas Public Funds Investment Act. Lone Star Investment Pool is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. Lone Star uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Lone Star is the same as the value of Lone Star Shares. Lone Star is administered by First Public LLC, who also serves as the investment advisor. The reported value of the pool is the same as the fair value of the pool shares.

Texas CLASS is a local government investment pool emphasizing safety, liquidity, convenience and competitive yield. Since 1996, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. Texas CLASS carries a letter of credit that ensures the integrity of the fund, making it the only investment pool in Texas backed by a letter of credit. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated 'AAAm' by Standard and Poor's Ratings Services. The 'AAAm' principal stability fund rating is the highest assigned to principal stability government investment pools and is a direct reflection of Texas CLASS's outstanding credit quality and management. Texas CLASS uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Texas CLASS is the same as the value of Texas CLASS Shares.

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

The investments held at June 30, 2018 are as follows:

	<u>Fair Value</u>	<u>Rating</u>	<u>Weighted Average Maturity (Days)*</u>
Texpool	\$ 2,702,025	AAAm	24
Texpool Prime	90,850,609	AAAm	35
Lonestar/First Public	901,925	AAAm	44
Texas Class	497,498	AAAm	50
Texas Term - TexasDAILY	<u>222,381</u>	AAAm	38
Total value	<u>\$ 95,174,438</u>		

\*To arrive at weighted average maturity, the maturity of floating rate and variable rate securities was deemed to be the final maturity of such securities.

	<u>Governmental Activities</u>	<u>Component Unit</u>
<b>Reported in Schedule A-1</b> 1120 Investments - Current	\$ 94,086,458	\$ 724,810
	<u>Private Purpose Trust Fund</u>	
<b>Reported in Schedule E-1</b> 1120 Investments - Current	\$ 325,324	

**Property Tax**

In the governmental fund financial statements, property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by January 31 of the year following the October 1 levy date. The assessed value of the property tax roll (net of exemptions), upon which the levy for the June 30, 2018 fiscal year was based, was \$21,477,429,393. Taxes are delinquent if not paid by February 1. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the ten month period ended June 30, 2018 were 98% of the year-end adjusted tax levy. Allowances for uncollectible taxes within the General Fund are based on historical experience in collecting 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. As of June 30, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled \$5,839,675.

The tax rate to finance general governmental services was \$1.04005 per \$100 and the tax rate to finance the payment of principal and interest on long-term obligations was \$0.0875 per \$100 for the year ended June 30, 2018.

**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 June 30, 2018, are summarized below:

Governmental Activities	Local	State Grants/ Entitlements	Federal Grants	Total
General Fund	\$ 748,967	\$ 2,746,831	\$ -	\$ 3,495,798
Child Nutrition Fund	-	-	35,806	35,806
Debt Service Fund	62,488	18,935	-	81,423
Nonmajor Governmental Funds	-	452,405	1,506,675	1,959,080
	<u>\$ 811,455</u>	<u>\$ 3,218,171</u>	<u>\$ 1,542,481</u>	<u>\$ 5,572,107</u>

**Interfund Receivables/Payable**

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

Interfund balances at June 30, 2018, resulting from payroll and accumulated fund charges, consisted of the following individual fund balances:

Due From/To Other Funds	Interfund Receivables	Interfund Payables
General Fund	\$ 2,197,047	\$ 1,813,375
Internal Service Funds	1,672,008	66,405
National School Breakfast/Lunch Program	158,610	436,535
Nonmajor governmental funds	5,232	1,716,582
Totals	\$ 4,032,897	\$ 4,032,897

**Note 8 - Capital Asset Activity**

Capital asset activity for the District for the ten month period ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Transfers & Adjustments	Ending Balance
Governmental Activities					
Capital assets, not being depreciated					
Land and improvements	\$ 9,009,142	\$ -	\$ (23,212)	\$ -	\$ 8,985,930
Construction in progress	1,042,879	509,671	-	(1,552,550)	-
Total capital assets, not being depreciated	10,052,021	509,671	(23,212)	(1,552,550)	8,985,930
Capital assets, being depreciated					
Buildings and improvements	422,519,816	611,636	-	1,552,550	424,684,002
Furniture and equipment	29,562,082	693,444	(661,513)	-	29,594,013
Total capital assets, being depreciated	452,081,898	1,305,080	(661,513)	1,552,550	454,278,015
Less accumulated depreciation for					
Buildings and improvements	(123,638,537)	(8,404,703)	-	-	(132,043,240)
Furniture and equipment	(25,763,480)	(977,849)	593,232	-	(26,148,097)
Total accumulated depreciation	(149,402,017)	(9,382,552)	593,232	-	(158,191,337)
Total capital assets, being depreciated, net	302,679,881	(8,077,472)	(68,281)	1,552,550	296,086,678
Governmental activities capital assets, net	<u>\$ 312,731,902</u>	<u>\$ (7,567,801)</u>	<u>\$ (91,493)</u>	<u>\$ -</u>	<u>\$ 305,072,608</u>

Depreciation expense was charged to the District's functions as follows:

Governmental Activities		
11	Instruction	\$ 5,522,398
12	Instructional resources and media services	100,944
13	Curriculum and instructional staff development	168,082
21	Instructional leadership	158,261
23	School leadership	581,631
31	Guidance, counseling, and evaluation services	370,348
32	Social work services	9,256
33	Health services	98,476
34	Student transportation	278,723
35	Food service	532,116
36	Extracurricular activities	202,006
41	General administration	211,136
51	Plant maintenance and operations	846,527
52	Security and monitoring services	66,184
53	Data processing services	217,549
61	Community services	18,915
		<hr/>
	Total depreciation expense-governmental activities	<u><u>\$ 9,382,552</u></u>

**Note 9 - Long-Term Debt**

The long-term indebtedness of the District pertains to the Governmental Activities of the District. Expenditures for the debt service requirements of the long-term debt are accounted for in the General Fund.

A summary of changes in general long-term debt for the ten month period ended June 30, 2018 is as follows:

	Interest Rate Payable	Amounts Original Issued	Balance 9/1/2017	Debt Issued	Principal Retired	Balance 6/30/2018	Current Portion 6/30/2018
Unlimited Tax Refunding Bonds, Series 2009	1.30%	\$ 1,340,000	\$ 395,000	\$ -	\$ (125,000)	\$ 270,000	\$ 140,800
Unlimited Tax Refunding Bond, Series 2011	1.75-5.00%	26,500,000	19,910,000	-	(1,415,000)	18,495,000	2,361,650
Unlimited Tax Refunding Bonds, Series 2012	3.00-5.00%	22,835,000	21,070,000	-	(970,000)	20,100,000	1,943,100
Unlimited Tax School Building and Refunding Bonds, Series 2013	1.00-5.00%	70,175,000	29,435,000	-	(19,615,000)	9,820,000	2,402,000
Unlimited Tax School Building Series, 2015	3.00-5.00%	85,235,000	83,195,000	-	(37,695,000)	45,500,000	3,378,850
Unlimited Tax Refunding Bonds, Series 2015	1.30-5.00%	38,495,000	36,270,000	-	(1,640,000)	34,630,000	3,087,575
Unlimited Tax Refunding Bonds, Series 2016	0.80-4.00%	26,000,000	25,715,000	-	(35,000)	25,680,000	967,356
Unlimited Tax Refunding Bonds, Series 2017	3.50-5.00%	54,335,996	-	54,335,996	(1,130,000)	53,205,996	2,398,269
<b>Total bonds payable</b>			<b>\$ 215,990,000</b>	<b>\$ 54,335,996</b>	<b>\$ (62,625,000)</b>	<b>\$ 207,700,996</b>	<b>\$ 16,679,600</b>

Debt service requirements for the District's long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2019	\$ 7,510,000	\$ 9,169,600	\$ 16,679,600
2020	7,805,000	8,865,900	16,670,900
2021	8,245,000	8,561,475	16,806,475
2022	8,285,000	8,203,650	16,488,650
2023	6,860,996	9,590,205	16,451,201
2024-2028	47,895,000	33,479,850	81,374,850
2029-2033	53,115,000	21,974,168	75,089,168
2034-2038	53,145,000	11,044,630	64,189,630
2039-2040	14,840,000	1,033,000	15,873,000
Totals	<u>\$ 207,700,996</u>	<u>\$ 111,922,478</u>	<u>\$ 319,623,474</u>

A summary in changes of total bonds payable and other long-term debt follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable					
General obligation bonds	\$ 215,990,000	\$ 54,335,996	\$ (62,625,000)	\$ 207,700,996	\$ 7,510,000
Less deferred amounts					
For issuance premium/ discounts (CIB's)	21,844,994	8,280,087	(7,955,224)	22,169,857	1,455,895
Total bonds payable, net	237,834,994	62,616,083	(70,580,224)	229,870,853	8,965,895
Compensated absences	3,703,635	-	(3,703,635)	-	-
Accretion on CAB, Series 2017	-	169,259	-	169,259	-
Net pension liability	54,623,445	4,672,586	(14,480,461)	44,815,570	-
Net OPEB liability	137,581,864	13,188	(59,664,834)	77,930,218	-
Governmental activities long-term liabilities	<u>\$ 433,743,938</u>	<u>\$ 67,471,116</u>	<u>\$ (148,429,154)</u>	<u>\$ 352,785,900</u>	<u>\$ 8,965,895</u>

On October 15, 2016, Midland Independent School District issued \$26,000,000 of Unlimited Tax Refunding Bonds, Series 2016. The proceeds of the refunding were to be used to refund outstanding debt of the Unlimited Tax Refunding 2013 series totaling \$26,840,000. The refunding provided a Net Reoffering Premium of \$1,564,732 .



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

On December 1, 2017, Midland Independent School District issued \$54,335,996 of Unlimited Tax Refunding Bonds Series 2017, approved by voters on November 6, 2012, (1) to refund a portion of the District's outstanding debt for debt service savings, and (2) to pay costs associated with the issuance of the bonds. The 2017 Series had a net re-offering premium of \$8,280,087 and issuance costs of \$542,027. The bonds are payable from a continuing direct annual ad valorem tax levied by the District, without limits as to the rate or amount, on all taxable property within the District. The purpose of the refunding was to lower the overall debt service requirements of the District. The refunding resulted in cash flow savings of \$3,485,970 and an economic gain of approximately \$2,374,708.

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

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

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

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

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

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of June 30, 2018.

#### **Accumulated Unpaid Sick Leave Benefits**

In prior fiscal periods, the District had 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 was budgeted and paid within the current period. On November 13, 2017, the Board removed this policy and the accrued liability was removed from the District's financial statements.

**Note 10 - Commitments Under Operating Leases**

Commitments under operating lease agreements for facilities and equipment provide for minimum future rental payments as of June 30, 2018 as follows:

Year Ending June 30,		
2018	\$	324,032
2019		275,432
2020		275,432
2021		22,953
Total minimum future lease payments	\$	897,849

**Note 11 - Contingencies**

The District is not a party to any legal actions that are believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

The District participates in numerous state and federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Note 12 - Defined Benefit Pension Plan**

**Defined Benefit Pension Plan**

**Plan Description**

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

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

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

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

### **Benefits Provided**

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

### **Contribution**

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal year 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for the fiscal years 2016 and 2017.

	2018	2017
Member	7.70%	7.70%
Non-employer contributing entity (state)	6.80%	6.80%
Employers/district	6.80%	6.80%

The contribution amounts for the District are as follows:

	2017
Member contributions	\$ 10,525,385
NECE on-behalf contributions (state)	6,496,455
District contributions	4,592,732

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

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

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

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

**Actuarial Assumptions**

The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected investment rate of return	8.00%
Municipal bond rate*	N/A*
Last year ending August 31 in the 2016 to 2015 projection period (100 years)	2116
Inflation	2.50%
Salary increases including inflation	3.50% to 9.50%
Ad hoc post-employment benefit changes	None

\* If a municipal bond rate was to be used, the rate would be 3.42% as of August 2017 (i.e., the rate closest to but not later than the measurement date). The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index.”

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

### Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

**Teacher Retirement System of Texas**  
**Asset Allocation and long-Term Expected Real Rate of Return as of August 31, 2017**

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation	0.0%	0.0%	2.2%
Alpha	0.0%	0.0%	1.0%
Totals	<u>100%</u>		<u>8.7%</u>

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

**Discount Rate Sensitivity Analysis**

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	<u>1% Decrease in Discount Rate (7%)</u>	<u>Discount Rate (8%)</u>	<u>1% Increase Discount Rate (9%)</u>
Total TRS net pension liability	\$ 53,902,879,534	\$ 31,974,612,699	\$ 13,715,771,590
District's proportionate share of the net pension liability	\$ 75,550,196	\$ 44,815,570	\$ 19,224,005

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

At June 30, 2018, the District reported a liability of \$44,815,570 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 44,815,570
State's proportionate share of the net pension liability associated with the District	<u>64,433,639</u>
Total	<u>\$ 109,249,209</u>

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net pension liability was .1401591% which was a decrease from .1445504% from its proportion measured as of August 31, 2016.

**Changes since the Prior Actuarial Valuation**

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

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

For the ten month period ended June 30, 2018, the District recognized pension expense of \$4,914,742 and revenue of \$6,590,629 for support provided by the State.



At June 30, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actuarial economic experience	\$ 655,672	\$ 2,416,845
Changes in actuarial assumptions	2,041,420	1,168,665
Net difference between projected and actual earnings on pension plan investments		3,266,061
Changes in proportion and differences between District contributions and proportionate share of contributions	7,291,072	3,235,820
Contributions paid to TRS subsequent to the measurement date	5,416,563	
Totals	\$ 15,404,727	\$ 10,087,391

\$5,416,563 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2019. The other net amount of employee's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,		
2019	\$	(227,404)
2020		2,633,290
2021		(447,190)
2022		(1,307,698)
2023		(535,240)
Thereafter		(214,985)
Totals	\$	(99,227)

### Note 13 - Postemployment Health Benefits

#### Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575

**OPEB Plan Fiduciary Net Position**

Detail information about the TRS-Care’s fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr/pd##CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

**Benefits Provided**

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-retirement benefit changes, including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

TRS-Care Plan Premium Rates  
Effective September 1, 2016 - December 31, 2017

	TRS-Care 1 <u>Basic Plan</u>	TRS-Care 2 <u>Optional Plan</u>	TRS-Care 3 <u>Optional Plan</u>
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only	28	62	82
<i>* or surviving spouse</i>			

**Contributions**

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you go basis and is subject to changed based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of Trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employee contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor:

Contributions Rates		
	2017	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
2017 Employer Contributions	\$ 751,813	
2017 Member Contributions	88,506	
2017 NECE On-behalf Contributions	1,279,217	

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

**Actuarial Assumptions**

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

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

Additional Actuarial Methods and Assumptions

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% to 9.50%
Healthcare Trend Rates	4.50% to 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

\* Source: Fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.

\*\* Includes inflation at 2.50%.

\*\*\* Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescriptions on all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of ten years.

**Other Information**

There was a significant plan change adopted in the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

**Discount Rate**

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Midland Independent School District  
Notes to Financial Statements  
June 30, 2018

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation	0.0%	0.0%	2.2%
Alpha	0.0%	0.0%	1.0%
Totals	100%		8.7%

\* The Expected Contributions to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

### Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase Discount Rate (4.42%)
Total TRS net OPEB liability	\$ 51,324,568,976	\$ 43,486,248,635	\$ 37,186,006,400
District's proportionate share of the Net OPEB liability	\$ 91,977,004	\$ 77,930,218	\$ 66,639,769

**Healthcare Cost Trend Rate Sensitivity Analysis**

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total TRS net OPEB liability	\$ 36,206,646,484	\$ 43,486,248,635	\$ 53,038,004,180
District's proportionate share of the Net OPEB liability	\$ 64,884,692	\$ 77,930,218	\$ 95,047,592

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

At June 30, 2018, the District reported a liability of \$77,930,218 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 77,930,218
State's proportionate share of the net OPEB liability associated with the District	106,760,063
<b>Total</b>	<b>\$ 184,690,281</b>

The Net OPEB Liability was measured as of August 31, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The District's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the District's proportion of the collective Net OPEB Liability was 0.1792066% which was the same proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation**

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB Liability since the prior measurement period:

1. Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.

2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the OPEB liability.

In this valuation, the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

1. 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50%.
2. Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
3. There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

For the ten month period ended August 31, 2018, the District recognized OPEB expense of \$(35,724,756) and revenue of \$1,276,373 for support provided by the State.

At August 31, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actuarial economic experience	\$ -	\$ 1,626,852
Changes in actuarial assumptions	-	30,971,505
Net difference between projected and actual earnings on pension plan investments	11,838	-
Changes in proportion and differences between District contributions and proportionate share of contributions	360	-
Contributions paid to TRS subsequent to the measurement date	833,133	-
Totals	\$ 845,331	\$ 32,598,357

\$833,133 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2019. The other net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	
2019	\$ (4,299,781)
2020	(4,299,781)
2021	(4,299,781)
2022	(4,299,781)
2023	(4,302,741)
Thereafter	(11,084,294)
Totals	\$ (32,586,159)

**Medicare Part D**

The Medicare Prescription Drug, Improvement, and Modernization act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the ten month period ended June 30, 2018, and the years ended August 31, 2017 and 2016, the subsidy payments received by TRS-Care on behalf of the District were \$547,884, \$410,271, and \$552,973, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements.

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



**Note 14 - Revenues from Local and Intermediate Sources**

	General	National School Breakfast/Lunch Program	Debt Service	Nonmajor Governmental	Total
Property taxes	\$ 217,536,242	\$ -	\$ 18,317,867		\$ 235,854,109
Penalties, interest, and other tax-related	1,859,436	-	130,882		1,990,318
Investment income	1,105,121	16,757	91,791	17,677	1,231,346
Food sales	-	3,080,138			3,080,138
Co-curricular/extra- curricular student activities	489,330	-			489,330
Gifts and bequests	170,711	500		70,351	241,562
Insurance recoveries	932,893	-			932,893
Oil and gas leases	2,003,782	-			2,003,782
Other	878,634	4,309		376,018	1,258,961
<b>Total</b>	<b>\$ 224,976,149</b>	<b>\$ 3,101,704</b>	<b>\$ 18,540,540</b>	<b>\$ 464,046</b>	<b>\$ 247,082,439</b>

**Note 15 - Employee Defined Contribution Plan**

The District sponsors a 401 (a) plan for the benefit of its employees. The plan provides for discretionary monthly contributions up to the maximum of 3.0%. The percentage contributed by the District is determined annually by the Board of Trustees. Participants begin to vest in benefits after 3 years and become fully vested after 5 years. Participants are 100% vested in their personal contributions at all times. The Board of Trustees did not authorize a discretionary contribution for the ten month period ended June 30, 2018.

**Note 16 - Fund Balance**

The District classifies governmental fund balance in accordance with Government Accounting Standards Board (GASB) 54, Fund Balance Reporting and Governmental Fund Type Definitions:

*Nonspendable* fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

*Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

*Committed* fund balance is established and modified by a resolution from the District's Board, the District's highest level of decision-making authority, and can be used only for the specific purposes determined by the Board's resolution. At June 30, 2018, the District had \$1,170,672 committed for campus activity funds.

*Assigned* fund balance is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. The Board has delegated the authority to assign fund balance to the Superintendent or the Chief Financial Officer. At June 30, 2018, the District had no assigned fund balance.

Unassigned fund balance is the residual classification for the District’s general fund and includes all spendable amounts not contained in the other classifications.

When both restricted and unrestricted fund balances are available for use, it is the District’s policy to use restricted fund balance first, then unrestricted fund balance. The District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a formal minimum fund balance policy.

**Note 17 - General Fund Federal Source Revenues**

Revenues from federal sources, which are reported in the General Fund, consist of:

	CFDA	Amount
School of Health and Related Services	N/A	\$ 1,947,781
ROTC	N/A	127,257
Indirect costs:		
ESEA Title I, Part A	84.010A	60,123
IDEA - Part B	84.027A	67,561
IDEA - Part B Preschool	84.173A	318
Career & Technical Basic	84.048A	8,059
ESEA Title II, Part A	84.367A	8,952
Title III, Part A - LEP	84.365A	10,048
National School Breakfast/Lunch Program	10.555	500,000
Title IV, Part A	84.424A	397
Title III, Part A - Immigrant	84.365A	4,987
Title I, Priority & Focus	84.010A	10,447
		\$ 2,745,930

**Note 18 - 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 2018, 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.

**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 \$198,746 and are included in the total accrued liabilities. The District remained fully-insured until March of 2001, at which time the District established its current self-funded program. The District has since maintained a self-insured retention of \$200,000 per occurrence. The District currently purchases excess coverage to statutory limits from the Texas Association of School Boards. The District does not purchase aggregate excess insurance. Claims administration is provided by the Texas Association of School Boards.

At June 30, 2018, the accrued liabilities for worker's compensation self-insurance of \$1,975,479 includes estimated incurred but not reported claims and is included in accrued expense liability.

	Ten Month Period Ended June 30, 2018
Unpaid claims, beginning of fiscal year	\$ 1,703,548
Incurred claims (including IBNR's and changes in provisions)	1,004,433
Claim payments	(732,502)
Unpaid claims, end of fiscal year	\$ 1,975,479

### 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 ten month period ended June 30, 2018, to \$150,000 for any individual participant and an aggregate limit equal to \$1,000,000. Estimates of claims payable and of claims incurred, but not reported at June 30, 2018, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due. The District does not provide any post-retirement health benefits to its employees. Unpaid claims are included in the internal service fund as accrued liabilities.

Changes in the balances of claims liabilities during the ten month period are as follows:

	Ten Month Period Ended June 30, 2018
Unpaid claims, beginning of fiscal year	\$ 2,081,024
Incurred claims (including IBNR's and changes in provisions)	12,280,603
Claim payments	(13,346,526)
Unpaid claims, end of fiscal year	\$ 1,015,101

**Note 19 - Prior Period Adjustments**

During the ten month period ended June 30, 2018, it was determined that the District had commingled campus activity funds with the general fund and student activity funds in prior years. It was determined these funds should be presented separately in fund 461 as a special revenue fund. The amount of the prior period adjustment is a reduction of fund balance in the general fund and increase in fund balance of total nonmajor funds.

Additionally, as of September 1, 2017, the District was required to adopt GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The implementation of this standard replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position for governmental activities was restated to retroactively remove the prior OPEB liability reported under GASB Statement No. 45 and adopt the provisions of GASB Statement No. 75 to report the beginning total OPEB liability.

The combined effect of the prior period adjustments on the governmental fund financial statements and governmental activities is as follows:

	<u>General Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>	<u>Governmental Activities</u>
Net position - beginning, as previously reported				\$ 77,468,669
Fund balance - beginning, as previously reported	\$ 42,776,819	\$ 1,235,380	\$ 49,571,451	
Campus activity funds	(652,200)	1,262,393	610,193	610,193
GASB 75 Implementation				
Net OPEB liability				(137,581,864)
Deferred outflows of resources related to contributions made during the year ended August 31, 2017				931,697
Fund balance - beginning, as restated	<u>\$ 42,124,619</u>	<u>\$ 2,497,773</u>	<u>\$ 50,181,644</u>	
Net position - beginning, as restated				<u>\$ (58,571,305)</u>

During the ten month period ended June 30, 2018, it was determined that the net position of the fiduciary funds had been understated due to an overstatement of reported liabilities for future scholarship payments and amounts due to be paid to others. The prior period adjustment resulted in an increase in net position of the fiduciary funds as follows:

	<u>Private Purpose Trust Fund</u>	<u>Employee Benefits Trust Fund</u>
Net position - beginning, as previously reported	\$ -	\$ -
Scholarship liability	269,896	-
Due to employees	-	273,279
Net position - beginning, as restated	<u>\$ 269,896</u>	<u>\$ 273,279</u>



Required Supplementary Information  
Ten Month Period Ended June 30, 2018

# Midland Independent School District

Data Control Codes		Budgeted Amounts	
		Original	Final
	Revenues		
5700	Local and intermediate revenues	\$ 219,658,928	\$ 222,257,033
5800	State program revenues	10,880,254	20,025,571
5900	Federal program revenues	2,350,000	2,350,000
5020	Total revenues	232,889,182	244,632,604
	Expenditures		
	Current		
0011	Instruction	112,265,218	111,258,202
0012	Instructional resources and media services	2,112,930	2,141,959
0013	Curriculum and instructional staff development	3,623,503	2,896,194
0021	Instructional leadership	3,337,556	2,775,968
0023	School leadership	11,566,447	11,859,457
0031	Guidance, counseling, and evaluation services	6,180,014	6,505,256
0032	Social work services	278,500	278,500
0033	Health services	2,095,225	2,094,410
0034	Student transportation	7,142,797	7,099,347
0036	Extracurricular activities	3,928,462	4,345,203
0041	General administration	6,626,223	4,915,458
0051	Plant maintenance and operations	20,171,892	19,854,738
0052	Security and monitoring services	1,332,807	1,663,911
0053	Data processing services	4,241,760	4,716,672
0061	Community services	293,906	296,219
	Intergovernmental		
0091	Contracted instructional services between schools	42,138,341	42,138,341
0093	Payments related to shared service arrangements	156,500	156,500
0099	Other intergovernmental charges	-	1,879,003
6030	Total expenditures	227,492,081	226,875,338
1100	(Deficiency) excess of revenues (under) over expenditures	5,397,101	17,757,266
	Other Financing Sources (Uses)		
7912	Sale of Real Property	-	320,100
8911	Transfers out	-	(320,100)
7080	Total other financing sources (uses)	-	-
1200	Net Change in Fund Balance	5,397,101	17,757,266
0100	Fund Balance, Beginning	42,776,819	42,776,819
1300	Prior Period Adjustment	(652,200)	(652,200)
	Fund Balance, Beginning - as restated	42,124,619	42,124,619
3000	Fund Balance, Ending	\$ 47,521,720	\$ 59,881,885

See Notes to Required Supplementary Information

Midland Independent School District  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund  
 (Exhibit G-1)  
 Ten Month Period Ended June 30, 2018

Actual	Variance with Final Budget Positive (Negative)
\$ 224,976,149	\$ 2,719,116
20,293,718	268,147
2,745,930	395,930
<u>248,015,797</u>	<u>3,383,193</u>
106,916,067	4,342,135
2,016,878	125,081
2,316,067	580,127
2,411,444	364,524
11,496,515	362,942
6,101,998	403,258
186,977	91,523
1,927,848	166,562
5,625,197	1,474,150
4,054,499	290,704
4,263,607	651,851
17,042,101	2,812,637
1,314,689	349,222
4,376,164	340,508
273,469	22,750
38,120,581	4,017,760
153,947	2,553
1,396,826	482,177
<u>209,994,874</u>	<u>16,880,464</u>
<u>38,020,923</u>	<u>20,263,657</u>
320,100	-
-	320,100
<u>320,100</u>	<u>320,100</u>
38,341,023	20,583,757
42,776,819	-
(652,200)	-
<u>42,124,619</u>	<u>-</u>
<u>\$ 80,465,642</u>	<u>\$ 20,583,757</u>

Midland Independent School District  
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – National School  
Breakfast and Lunch Program (Exhibit G-2)  
Ten Month Period Ended June 30, 2018

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate revenues	\$ 3,793,000	\$ 3,793,000	\$ 3,101,704	\$ (691,296)
5800	State program revenues	59,400	59,400	58,910	(490)
5900	Federal program revenues	9,388,300	9,388,300	8,179,552	(1,208,748)
5020	Total revenues	13,240,700	13,240,700	11,340,166	(1,900,534)
	Expenditures				
	Current				
	Support services - student (pupil)				
0035	Food service	13,240,700	13,240,700	10,717,208	2,523,492
	Total support services - student (pupil)	13,240,700	13,240,700	10,717,208	2,523,492
6030	Total expenditures	13,240,700	13,240,700	10,717,208	2,523,492
1100	(Deficiency) excess of revenues (under) over expenditures	-	-	622,958	622,958
1200	Net change in fund balance	-	-	622,958	622,958
0100	Fund balance, beginning	2,981,942	2,981,942	2,981,942	-
3000	Fund balance, ending	\$ 2,981,942	\$ 2,981,942	\$ 3,604,900	\$ 622,958



Midland Independent School District  
Schedule of the District's Proportionate Share of the Net Pension Liability (Exhibit G-3)  
June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.1401599%	0.1445504%	0.1589302%	0.1589302%
District's proportionate share of the net pension liability	\$ 44,815,570	\$ 54,623,985	\$ 56,179,170	\$ 56,179,170
State's proportionate share of the net pension liability associated with the District	<u>64,433,639</u>	<u>81,609,959</u>	<u>78,651,973</u>	<u>78,651,973</u>
Totals	<u>\$ 109,249,209</u>	<u>\$ 136,233,944</u>	<u>\$ 134,831,143</u>	<u>\$ 134,831,143</u>
District's covered payroll	\$ 136,693,306	\$ 142,659,151	\$ 141,859,865	\$ 125,267,279
District's proportionate share of the net pension liability as a percentage of its covered payroll	32.79%	38.29%	39.60%	44.85%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability which is August 31 of the preceding fiscal year.

Note: Plan information was unavailable prior to 2014.

Midland Independent School District  
Schedule of the District's Contributions to the Pension Plan (Exhibit G-4)  
June 30, 2018

	<u>6/30/2018</u>	<u>8/31/2017</u>	<u>8/31/2016</u>	<u>8/31/2015</u>
Contractually required contributions	\$ 8,409,851	\$ 9,090,105	\$ 9,486,833	\$ 9,433,681
Contributions in relation to the contractually required contributions	<u>\$ (8,409,851)</u>	<u>(9,090,105)</u>	<u>(9,486,833)</u>	<u>(9,433,681)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 123,674,273	\$ 136,693,306	\$ 142,659,151	\$ 141,859,865
Contributions as a percentage of covered payroll	6.80%	6.65%	6.65%	6.65%

Note: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date. The District changed its fiscal year end to June 30 during the 2018 fiscal year. Accordingly, the 2018 fiscal period is presented as a ten month period.

Note 2: Plan information was unavailable prior to 2014.

Midland Independent School District  
Schedule of the District's Proportionate Share of the Net OPEB Liability (Exhibit G-5)  
June 30, 2018

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	2018
District's proportion of the net OPEB liability	0.1792066%
District's proportionate share of the net OPEB liability	\$ 77,930,218
State's proportionate share of the net OPEB liability associated with the District	106,760,063
Totals	\$ 184,690,281
District's covered payroll	\$ 136,693,306
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	57.01%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net OPEB liability which is August 31 of the preceding fiscal year.

Note: Plan information was unavailable prior to 2017.

Midland Independent School District  
Schedule of the District's Contributions to the OPEB Plan (Exhibit G-6)  
June 30, 2018

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	<u>2018</u>
Contractually required contributions	\$ 927,557
Contributions in relation to the contractually required contributions	<u>\$ (927,557)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
District's covered payroll	\$ 123,674,273
Contributions as a percentage of covered payroll	0.75%

Note: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date. The District changed its fiscal year end to June 30 during the 2018 fiscal year. Accordingly, the 2018 fiscal period is presented as a ten month period.

Note 2: Plan information was unavailable prior to 2017

## **Note 1 - Budget**

### **Budgetary Information**

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

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

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

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

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

## **Note 2 - Pension**

### **Changes of Benefit Terms**

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

### **Changes in the Size or Composition of the Population Covered by the Benefit Terms**

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

### **Changes of Assumptions**

There were no changes of assumptions during the measurement period.

**Note 3 - OPEB**

**Changes of Benefit Terms**

There was a significant plan change adopted in the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage.

**Changes in the Size or Composition of the Population Covered by the Benefit Terms**

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

**Changes of Assumptions**

Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.



Supplementary Information  
Ten Month Period Ended June 30, 2018  
**Midland Independent School District**

Data Control Codes	211	224	225	
	ESEA Title I, Part A - Improving Basic Programs	IDEA-Part B Formula	IDEA-Part B Preschool	
Assets				
1110	Cash and cash equivalents	\$ 3,569	\$ 8,725	\$ -
1120	Current investments	-	-	-
1240	Due from other governments	480,514	595,072	1,616
1260	Due from other funds	-	-	-
1290	Other Receivables	-	-	-
1000	Total assets	\$ 484,083	\$ 603,797	\$ 1,616
Liabilities				
2110	Accounts payable	\$ 26,955	\$ 11,502	\$ -
2160	Accrued wages payable	185,200	337,041	774
2170	Due to other funds	271,928	255,254	842
2300	Unearned revenue	-	-	-
2000	Total liabilities	484,083	603,797	1,616
Fund Balances				
3450	Restricted - grants	-	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-	-
3545	Committed - other	-	-	-
	Total fund balances	-	-	-
	Total liabilities and fund balances	\$ 484,083	\$ 603,797	\$ 1,616



Midland Independent School District  
Combining Balance Sheet – Nonmajor Governmental Funds – Special Revenue Funds (Exhibit H-1)  
June 30, 2018

242	244	255	263	272
Summer Feeding Program	Career & Technical Basic Grant	ESEA Title II, Part A; Teacher & Principal Training & Recruiting	Title III, Part A English Language Acquisition & Enhancement	Medical Assistance Program
\$ 129,294	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
30,934	90,538	14,755	23,647	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 160,228</u>	<u>\$ 90,538</u>	<u>\$ 14,755</u>	<u>\$ 23,647</u>	<u>\$ -</u>
\$ -	\$ -	\$ 1,500	\$ -	\$ -
10,720	5,988	-	5,212	-
20,465	84,550	13,255	18,435	-
-	-	-	-	-
<u>31,185</u>	<u>90,538</u>	<u>14,755</u>	<u>23,647</u>	<u>-</u>
129,043	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>129,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 160,228</u>	<u>\$ 90,538</u>	<u>\$ 14,755</u>	<u>\$ 23,647</u>	<u>\$ -</u>

Data Control Codes	289	296	396	
	Other Federal Special Revenue Funds	Title I, Priority & Focus	Advanced Placement Testing	
Assets				
1110	Cash and cash equivalents	\$ 14,981	\$ 11,057	\$ 60,137
1120	Current investments	-	-	-
1240	Due from other governments	124,582	145,017	-
1260	Due from other funds	-	-	-
1290	Other Receivables	-	-	-
1000	Total assets	\$ 139,563	\$ 156,074	\$ 60,137
Liabilities				
2110	Accounts payable	\$ 92,750	\$ 28,925	\$ 1,495
2160	Accrued wages payable	-	43,248	-
2170	Due to other funds	46,813	83,901	(4,790)
2300	Unearned revenue	-	-	63,432
2000	Total liabilities	139,563	156,074	60,137
Fund Balances				
3450	Restricted - grants	-	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-	-
3545	Committed - other	-	-	-
	Total fund balances	-	-	-
	Total liabilities and fund balances	\$ 139,563	\$ 156,074	\$ 60,137

Midland Independent School District  
 Combining Balance Sheet – Nonmajor Governmental Funds – Special Revenue Funds (Exhibit H-1)  
 June 30, 2018

405	410	427	429	461	499
ESC Gifted and Talented	State Textbook Fund	Read to Succeed	High Quality Pre-K	Campus Activity Fund	Other Local Special Revenue Funds
\$ 812	\$ 288,759	\$ 17,150	\$ 1,061	\$ 1,170,677	\$ 135,896
-	-	-	-	-	-
-	448,044	-	4,361	-	-
-	2,675	-	-	-	-
-	-	-	-	-	46,757
<u>\$ 812</u>	<u>\$ 739,478</u>	<u>\$ 17,150</u>	<u>\$ 5,422</u>	<u>\$ 1,170,677</u>	<u>\$ 182,653</u>
\$ -	\$ -	\$ -	\$ 3,840	\$ -	\$ -
-	-	-	-	-	5,194
812	739,478	17,150	1,582	5	166,902
-	-	-	-	-	10,557
<u>812</u>	<u>739,478</u>	<u>17,150</u>	<u>5,422</u>	<u>5</u>	<u>182,653</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,170,672	-
-	-	-	-	1,170,672	-
<u>\$ 812</u>	<u>\$ 739,478</u>	<u>\$ 17,150</u>	<u>\$ 5,422</u>	<u>\$ 1,170,677</u>	<u>\$ 182,653</u>

Midland Independent School District  
Combining Balance Sheet – Nonmajor Governmental Funds – Special Revenue Funds (Exhibit H-1)  
June 30, 2018

<u>Data Control Codes</u>	Total Nonmajor Special Revenue Funds	<u>699</u> Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit C-1)	
<b>Assets</b>				
1110	Cash and cash equivalents	\$ 1,842,118	\$ -	\$ 1,842,118
1120	Current investments	-	933,990	933,990
1240	Due from other governments	1,959,080	-	1,959,080
1260	Due from other funds	2,675	2,557	5,232
1290	Other Receivables	46,757	-	46,757
		<u>                    </u>	<u>                    </u>	<u>                    </u>
1000	Total assets	<u>\$ 3,850,630</u>	<u>\$ 936,547</u>	<u>\$ 4,787,177</u>
<b>Liabilities</b>				
2110	Accounts payable	\$ 166,967	\$ -	\$ 166,967
2160	Accrued wages payable	593,377	-	593,377
2170	Due to other funds	1,716,582	-	1,716,582
2300	Unearned revenue	73,989	-	73,989
		<u>                    </u>	<u>                    </u>	<u>                    </u>
2000	Total liabilities	<u>2,550,915</u>	<u>-</u>	<u>2,550,915</u>
<b>Fund Balances</b>				
3450	Restricted - grants	129,043	-	129,043
3470	Restricted - capital acquisitions and contractual obligations	-	936,547	936,547
3545	Committed - other	1,170,672	-	1,170,672
		<u>                    </u>	<u>                    </u>	<u>                    </u>
	Total fund balances	<u>1,299,715</u>	<u>936,547</u>	<u>2,236,262</u>
	Total liabilities and fund balances	<u>\$ 3,850,630</u>	<u>\$ 936,547</u>	<u>\$ 4,787,177</u>

Data Control Codes	211	224	225
	ESEA Title I, Part A - Improving Basic Programs	IDEA-Part B Formula	IDEA-Part B Preschool
Revenues			
5700	Local and intermediate revenues	\$ -	\$ -
5800	State program revenues	-	-
5900	Federal program revenues	2,825,961	16,445
5020	Total revenues	2,825,961	16,445
Expenditures			
Current			
0011	Instruction	1,889,043	16,445
0012	Instructional resources and media services	10,883	-
0013	Curriculum and instructional staff development	616,620	93,667
0021	Instructional leadership	140,550	144,050
0023	School leadership	100,119	-
0031	Guidance, counseling, and evaluation services	-	1,305,419
0033	Health services	-	4,714
0034	Student transportation	-	5,150
0035	Food service	-	-
0036	Extracurricular activities	-	-
0041	General administration	-	-
0051	Plant maintenance and operations	-	-
0052	Security and monitoring services	-	-
0053	Data processing services	-	-
0061	Community services	68,746	-
0081	Facilities acquisition and construction	-	-
6030	Total expenditures	2,825,961	16,445
1100	Excess (deficiency) of revenues over (under) expenditures	-	-
1200	Net Change in Fund Balances	-	-
0100	Fund Balances, Beginning	-	-
1300	Prior Period Adjustment	-	-
3000	Fund Balances, Ending	\$ -	\$ -

Midland Independent School District  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental  
 Funds – Special Revenue Funds (Exhibit H-2)  
 Ten Month Period Ended June 30, 2018

242	244	255	263	272
Summer Feeding Program	Career & Technical Basic Grant	ESEA Title II, Part A; Teacher & Principal Training & Recruiting	Title III, Part A English Language Acquisition & Enhancement	Medical Assistance Program
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
30,934	252,318	343,740	121,445	12,655
30,934	252,318	343,740	121,445	12,655
-	178,445	-	18,595	-
-	-	-	-	-
-	-	116,194	102,586	-
-	-	123,145	264	-
-	-	102,901	-	-
-	73,873	-	-	-
-	-	-	-	56,727
-	-	-	-	-
13,249	-	-	-	-
-	-	-	-	-
-	-	1,500	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
13,249	252,318	343,740	121,445	56,727
17,685	-	-	-	(44,072)
17,685	-	-	-	(44,072)
111,358	-	-	-	44,072
-	-	-	-	-
\$ 129,043	\$ -	\$ -	\$ -	\$ -

Data Control Codes		289	296	396
		Other Federal Special Revenue Funds	Title I, Priority & Focus	Advanced Placement Testing
	Revenues			
5700	Local and intermediate revenues	\$ -	\$ -	\$ -
5800	State program revenues	-	-	7,560
5900	Federal program revenues	406,390	531,406	-
5020	Total revenues	406,390	531,406	7,560
	Expenditures			
	Current			
0011	Instruction	17,363	394,197	-
0012	Instructional resources and media services	-	-	-
0013	Curriculum and instructional staff development	2,313	124,433	5,895
0021	Instructional leadership	376,174	1,295	-
0023	School leadership	6,732	10,664	1,665
0031	Guidance, counseling, and evaluation services	-	-	-
0033	Health services	-	-	-
0034	Student transportation	-	-	-
0035	Food service	-	-	-
0036	Extracurricular activities	-	-	-
0041	General administration	-	-	-
0051	Plant maintenance and operations	-	-	-
0052	Security and monitoring services	-	-	-
0053	Data processing services	-	-	-
0061	Community services	3,808	817	-
0081	Facilities acquisition and construction	-	-	-
6030	Total expenditures	406,390	531,406	7,560
1100	Excess (deficiency) of revenues over (under) expenditures	-	-	-
1200	Net Change in Fund Balances	-	-	-
0100	Fund Balances, Beginning	-	-	-
1300	Prior Period Adjustment	-	-	-
3000	Fund Balances, Ending	\$ -	\$ -	\$ -

Midland Independent School District  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental  
Funds – Special Revenue Funds (Exhibit H-2)  
Ten Month Period Ended June 30, 2018

405	410	427	429	461	499
ESC Gifted and Talented	State Textbook Fund	Read to Succeed	High Quality Pre-K	Campus Activity Funds	Other Local Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 377,306	\$ 69,063
-	20,694	11,550	16,121	-	-
-	-	-	-	-	-
-	20,694	11,550	16,121	377,306	69,063
-	20,694	-	11,760	334,681	34,903
-	-	-	-	11,377	-
-	-	11,550	4,301	1,752	-
-	-	-	60	-	-
-	-	-	-	30,767	-
-	-	-	-	-	-
-	-	-	-	54	-
-	-	-	-	18,672	-
-	-	-	-	26,174	-
-	-	-	-	-	-
-	-	-	-	42,097	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	3,453	31,797
-	-	-	-	-	-
-	20,694	11,550	16,121	469,027	66,700
-	-	-	-	(91,721)	2,363
-	-	-	-	(91,721)	2,363
-	-	-	-	-	(2,363)
-	-	-	-	1,262,393	-
\$ -	\$ -	\$ -	\$ -	\$ 1,170,672	\$ -



Midland Independent School District  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental  
Funds – Special Revenue Funds (Exhibit H-2)  
Ten Month Period Ended June 30, 2018

Data Control Codes		Total Nonmajor Special Revenue Funds	699 Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit C-1)
Revenues				
5700	Local and intermediate revenues	\$ 446,369	\$ 17,677	\$ 464,046
5800	State program revenues	55,925	-	55,925
5900	Federal program revenues	7,760,457	-	7,760,457
5020	Total revenues	<u>8,262,751</u>	<u>17,677</u>	<u>8,280,428</u>
Expenditures				
Current				
0011	Instruction	4,582,289	58,096	4,640,385
0012	Instructional resources and media services	22,260	-	22,260
0013	Curriculum and instructional staff development	1,079,311	-	1,079,311
0021	Instructional leadership	785,538	-	785,538
0023	School leadership	252,848	-	252,848
0031	Guidance, counseling, and evaluation services	1,379,292	-	1,379,292
0033	Health services	61,441	-	61,441
0034	Student transportation	5,204	-	5,204
0035	Food service	31,921	-	31,921
0036	Extracurricular activities	26,174	-	26,174
0041	General administration	1,500	-	1,500
0051	Plant maintenance and operations	42,097	16,250	58,347
0052	Security and monitoring services	-	22,277	22,277
0053	Data processing services	-	18,475	18,475
0061	Community services	108,621	-	108,621
0081	Facilities acquisition and construction	-	48,345	48,345
6030	Total expenditures	<u>8,378,496</u>	<u>163,443</u>	<u>8,541,939</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>(115,745)</u>	<u>(145,766)</u>	<u>(261,511)</u>
1200	Net Change in Fund Balances	(115,745)	(145,766)	(261,511)
0100	Fund Balances, Beginning	153,067	1,082,313	1,235,380
1300	Prior Period Adjustment	<u>1,262,393</u>	-	<u>1,262,393</u>
3000	Fund Balances, Ending	<u>\$ 1,299,715</u>	<u>\$ 936,547</u>	<u>\$ 2,236,262</u>

Midland Independent School District  
Combining Statement of Net Position – Internal Service Funds (Exhibit I-1)  
June 30, 2018

Data Control Codes		751 Employee Housing Fund	753 Self Insurance Fund	Total Internal Service Funds
	Assets			
	Current assets			
1110	Cash and cash equivalents	\$ 329,508	\$ 1,596,510	\$ 1,926,018
1120	Current investments	-	390,558	390,558
1260	Due from other funds	-	1,672,008	1,672,008
1410	Prepaid items	-	19,484	19,484
	Total current assets	<u>329,508</u>	<u>3,678,560</u>	<u>4,008,068</u>
	Noncurrent assets			
1520	Buildings and improvements, net	<u>663,020</u>	<u>-</u>	<u>663,020</u>
	Total noncurrent assets	<u>663,020</u>	<u>-</u>	<u>663,020</u>
1000	Total assets	<u>992,528</u>	<u>3,678,560</u>	<u>4,671,088</u>
	Liabilities			
	Current liabilities			
2110	Accounts payable	48,601	1,028,188	1,076,789
2170	Due to other funds	-	66,405	66,405
2200	Accrued liabilities	-	2,990,580	2,990,580
	Total current liabilities	<u>48,601</u>	<u>4,085,173</u>	<u>4,133,774</u>
2000	Total liabilities	<u>48,601</u>	<u>4,085,173</u>	<u>4,133,774</u>
	Net Position			
3200	Investment in capital assets	663,020	-	663,020
3900	Unrestricted	<u>280,907</u>	<u>(406,613)</u>	<u>(125,706)</u>
3000	Total net position	<u>\$ 943,927</u>	<u>\$ (406,613)</u>	<u>\$ 537,314</u>

Midland Independent School District  
Combining Statement of Revenues, Expenditures, and Changes in Net Position – Internal Service Funds  
(Exhibit I-2)  
Ten Month Period Ended June 30, 2018

Data Control Codes	751 Employee Housing Fund	753 Self Insurance Fund	Total Internal Service Funds
Operating Revenues			
5700	\$ 140,473	\$ 20,028,888	\$ 20,169,361
5020	140,473	20,028,888	20,169,361
Operating Expenses			
6200	65,447	164,409	229,856
6300	1,156	-	1,156
6400	72,622	15,712,926	15,785,548
6030	139,225	15,877,335	16,016,560
	1,248	4,151,553	4,152,801
Non-Operating Revenues			
7955	-	8,546	8,546
8030	-	8,546	8,546
1300	1,248	4,160,099	4,161,347
0100	942,679	(4,566,712)	(3,624,033)
3300	\$ 943,927	\$ (406,613)	\$ 537,314

Midland Independent School District  
Combining Statement of Cash Flows – Internal Service Funds (Exhibit I-3)  
Ten Month Period Ended June 30, 2018

	751 Employee Housing Fund	753 Self Insurance Fund	Total Internal Service Funds
Operating Activities			
Cash received from quasi-external operating activities	\$ 140,473	\$ 18,061,771	\$ 18,202,244
Cash payments to suppliers for goods and benefits	(66,602)	(16,532,837)	(16,599,439)
Net Cash from (used for) Operating Activities	<u>73,871</u>	<u>1,528,934</u>	<u>1,602,805</u>
Investing Activities			
Interest and dividends received on investments	-	8,546	8,546
Purchase of investments	-	(96,891)	(96,891)
Net Cash from (used for) Investing Activities	<u>-</u>	<u>(88,345)</u>	<u>(88,345)</u>
Net Change in Cash and Cash Equivalents	73,871	1,440,589	1,514,460
Cash and Cash Equivalents, Beginning of Year	<u>255,637</u>	<u>155,921</u>	<u>411,558</u>
Cash and Cash Equivalents, End of the Year	<u><u>\$ 329,508</u></u>	<u><u>\$ 1,596,510</u></u>	<u><u>\$ 1,926,018</u></u>
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities			
Operating income	\$ 1,248	\$ 4,151,553	\$ 4,152,801
Depreciation	24,022	-	24,022
Change in assets and liabilities	-	-	-
Increase in due from other funds	-	(1,655,187)	(1,655,187)
Decrease in prepaid items	-	97,422	97,422
Increase in accounts payable	48,601	41,068	89,669
Decrease in due to other funds	-	(311,930)	(311,930)
Decrease in payable from restricted assets	-	(793,992)	(793,992)
Net Cash from (used for) Operating Activities	<u><u>\$ 73,871</u></u>	<u><u>\$ 1,528,934</u></u>	<u><u>\$ 1,602,805</u></u>

Year Ended August 31,	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1	2	
	Maintenance	Debt Service	
2009 and prior years	\$ Various	\$ Various	\$ Various
2010	1.04005	0.1050	10,221,439,879
2011	1.04005	0.1010	10,879,019,756
2012	1.04005	0.1000	11,235,065,718
2013	1.04005	0.0900	14,698,146,126
2014	1.04005	0.1000	14,782,675,318
2015	1.04005	0.1000	19,292,108,478
2016	1.04005	0.1000	20,127,433,487
2017	1.04005	0.0800	18,996,101,877
2018 (School year under audit)	1.04005	0.0875	21,003,947,494
1000 Totals			

Midland Independent School District  
Schedule of Delinquent Taxes Receivable (Exhibit J-1)  
Twelve Months Ended August 31, 2018

10 Beginning Balance 9/1/2017	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/2018
\$ 216,112		20,289	2,048	\$ (52,325)	\$ 141,450
58,732		3,759	380	(357)	54,236
64,312		4,202	408	(573)	59,129
75,460		5,949	572	(982)	67,957
255,690		18,157	1,571	(1,206)	234,756
335,580		94,244	9,062	59,362	291,636
511,156		121,574	11,689	63,471	441,364
1,181,800		307,932	29,607	8,663	852,924
3,915,821		1,270,624	97,736	(574,788)	1,972,673
-	236,819,508	216,742,201	18,234,200	1,599,810	3,442,917
\$ 6,614,663	\$ 236,819,508	\$ 218,588,931	\$ 18,387,273	\$ 1,101,075	\$ 7,559,042

House Bill 98 enacted by the 76<sup>th</sup> Legislature of the State of Texas allowed school districts to change their fiscal year-end from August 31 to June 30 beginning with the 2001-2002 fiscal year. The District elected to take advantage of this opportunity and chose to change its fiscal year beginning with the 2017-2018 reporting period. Fiscal years 2017 and prior ended on August 31; however, for 2018, the fiscal period consisted of the ten month period ended June 30, 2018. The Schedule of Delinquent Taxes Receivable is reported for twelve months to comply with TEA requirements.

Midland Independent School District  
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund  
(Exhibit J-3)  
Ten Month Period Ended June 30, 2018

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate revenues	\$ 18,260,402	\$ 18,260,402	18,540,540	\$ 280,138
5800	State program revenues	232,000	232,000	214,937	(17,063)
5020	Total revenues	18,492,402	18,492,402	18,755,477	263,075
	Expenditures				
	Debt Service:				
0071	Principal on long-term debt	16,770,094	8,285,000	8,285,000	-
0072	Interest on long-term debt	-	3,894,000	3,893,506	494
0073	Issuance costs and fees	-	532,000	527,320	4,680
	Total debt service	16,770,094	12,711,000	12,705,826	5,174
6030	Total expenditures	16,770,094	12,711,000	12,705,826	5,174
1100	(Deficiency) excess of revenues (under) over expenditures	1,722,308	5,781,402	6,049,651	268,249
	Other Financing Sources (Uses)				
7901	Refunding bonds issued	-	54,335,996	54,335,996	-
7916	Premium (discount) on issuance of bonds	-	8,280,087	8,280,087	-
8949	Payment to Bond Escrow	-	(62,074,057)	(62,074,057)	-
7080	Total other financing sources (uses)	-	542,026	542,026	-
1200	Net Change in Fund Balance	1,722,308	6,323,428	6,591,677	268,249
0100	Fund Balance, Beginning	2,577,310	2,577,310	2,577,310	-
3000	Fund Balance, Ending	\$ 4,299,618	\$ 8,900,738	\$ 9,168,987	\$ 268,249



Federal Awards Section  
Ten Month Period Ended June 30, 2018  
**Midland Independent School District**





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

To the Board of Trustees of  
Midland Independent School District  
Midland, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Midland Independent School District (the District) as of and for the ten month period ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency: Finding 2018-A.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Midland Independent School District's Response to the Finding**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Abilene, Texas  
November 12, 2018



## **Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance**

The Board of Trustees of  
Midland Independent School District  
Midland, Texas

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

We have audited Midland Independent School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the ten month period ended June 30, 2018. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### **Auditor's Responsibility**

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

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

#### **Opinion on the Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the ten month period ended June 30, 2018.

## Report on Internal Control over Compliance

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

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

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

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed name and date.

Abilene, Texas  
November 12, 2018

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

**Financial Statements**

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported

An unmodified opinion was issued on compliance for major programs

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
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Identification of Major Programs:

Child Nutrition Cluster (10.553, 10.555 and 10.559)

Dollar threshold used to distinguish between type A and type B federal programs	\$750,000
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Auditee qualified as a low-risk auditee?	Yes
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**Section 2. Findings Related to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards***

Finding 2018-A: Financial Reporting

Type of Finding: Significant Deficiency

Criteria or Specific Requirement:

Management of the District is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement in a timely manner.

Statement of Condition: In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements. Additionally, the District recorded adjustments to restate beginning fund balances of the general fund, total nonmajor funds, net position of governmental activities, and net position of fiduciary funds, which if not recorded, would have resulted in a misstatement of the District's financial statements. The restatements were the result of commingling of campus activity funds within the general fund and student activity funds that had accumulated over numerous years and an overstatement of liabilities in the fiduciary funds.

Cause: The District does not prepare its own financial statements and had previously commingled campus activity funds within the general fund and student activity funds which had accumulated over numerous years. Additionally, the District was improperly classifying restricted net position in the fiduciary funds as liabilities.

Effect: The preparation of financial statements and the prior period adjustment to restate opening fund balances and net position may result in financial statements and related information not being available for management purposes in a timely manner.

Recommendation: Auditing standards require that auditors communicate this deficiency; however, the District prepares budgetary and other financial reports for Board review on a routine basis. Additionally, while management of the District identified the misstatements during the current year, we are required to communicate the deficiency because it resulted in a prior period adjustment to previously issued financial statements and availability of information for management and Board use in an untimely manner. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

View of Responsible Officials:

Refer to the Corrective Action Plan.

**Section 3. Findings and Questioned Costs for Federal Awards Required to be Reported Under Uniform Guidance**

The audit disclosed no findings and questioned costs required to be reported.

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

None

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

None

Midland Independent School District  
Schedule of Expenditures of Federal Awards (Exhibit K-1)  
Ten Month Period Ended June 30, 2018

Fund Number	Federal Granter/ Pass Through Granter Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture				
Passed - Through Texas Department of Education				
Child Nutrition Cluster				
240	National School Breakfast Program	10.553	71401801	\$ 2,635,088
240	National School Lunch Program - Cash Assistance	10.555	71301801	5,562,543
240	National School Lunch Program - Noncash Assistance	10.555	71301701	481,921
242	Summer Food Service Program for Children	10.559	81085391	30,934
Total Child Nutrition Cluster				<u>8,710,486</u>
Total U.S. Department of Agriculture				<u>8,710,486</u>
U.S. Department of Education				
Passed - Through Texas Education Agency				
Title I Grants to Local Education Agencies				
211	Title I. Part A - Improving Basic Programs (211)	84.010A	18610101165901	2,886,084
288	Title I, Transformation Zone	84.010A	186101217110004	373,384
296	Title I, 1003(A). Priority and Focus School Grant (296)	84.010A	18610123165901	541,853
Total Title I Grants to Local Educational Agencies				<u>3,801,321</u>
Title IV Grants to Local Educational Agencies				
287	Title IV, Part A, Subpart 1	84.424A	18680101165901	22,719
Special Education Cluster (IDEA)				
224	Special Education Grants to States (224)	84.027A	186600011659016600	3,286,724
225	Special Education Preschool Grants (225)	84.173A	186610011659016000	16,763
Total Special Education Cluster (IDEA)				<u>3,303,487</u>
English Language Acquisition State Grants				
263	Title III, Part A - LEP (263)	84.365A	18671001165901	136,480
244	Career and Technical Education -- Basic Grants to States (244)	84.048A	18420006165901	260,377
Supporting Effective Instruction State Grants (formerly				
255	Improving Teacher Quality State Grants) (255)	84.367A	18694501165901	352,692
289	Grants for State Assessments and Related Activities (289)	84.369A	69551702	10,684
Total U.S. Department of Education				<u>7,887,760</u>
U.S. Department of Health and Human Services				
Passed - Through Texas Health and Human Services				
Medical Assistance Program (Medicaid cluster)				
		93.778	529-07-0157-00087	12,655
Total U.S. Department of Health and Human Services				<u>12,655</u>
Total Expenditures of Federal Awards				<u><u>\$ 16,610,901</u></u>



**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the ten month ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**Note 2 - Summary of Significant Accounting Policies**

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 expenditures were accounted for in the General Fund and Special Revenue Funds, components of the Governmental Fund type. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant.

School health and related services revenues are considered earned income at the local government level and thus are not included in the Schedule of Expenditures of Federal Awards. The following is a reconciliation of Federal Revenues on Exhibit C-2 to the Schedule of Expenditures of Federal Awards:

Total expenditures of federal awards per Exhibit K-1	\$ 16,610,901
General fund - federal revenue	
School Health and Related Services (SHARS)	1,947,781
Air Force JROTC	<u>127,257</u>
Total federal revenues per Exhibit C-3	<u><u>\$ 18,685,939</u></u>

**Note 3 - Indirect Cost Rate**

The District is not eligible to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance because the District has previously received a negotiated indirect cost rate for its federal awards.

Corrective Action Plan  
Ten Month Period Ended June 30, 2018

Identifying Number: 2018-A

Finding: The preparation of financial statements and the prior period adjustment to restate opening fund balances and net position may result in financial statements and related information not being available for management purposes in a timely manner.

Corrective Actions Taken: Before initiating the audit engagement, the District discovered the miscoding of campus activity funds as a receivable in the general operating fund. Campus activity funds were comingled with general funds dating back multiple years. The District self-reported this item to the auditors and proposed an adjustment. The internal controls in place by the District led to the identification of the miscoding. Internal controls were appropriately designed and implemented by current management during the period under audit to record the activity of the campus activity funds. Additionally, management has developed a methodology to estimate the liability for previously awarded scholarships in the fiduciary funds. District management will continue to review and monitor financial statements.

Name of Responsible Official: Chief Financial Officer and Executive Director of Financial Services

Anticipated Completion Date: Completed

Midland Independent School District  
Schedule of Required Responses to Selected School First Indicators (Exhibit L-1)  
Ten Month Period Ended June 30, 2018

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<u>Data Control Codes</u>	<u>Responses</u>
SF2 Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4 Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6 Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7 Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8 Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10 Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end?	\$ 169,259
SF11 Net pension assets (1920) at fiscal year-end.	\$ -
SF12 Net pension liabilities (2540) at fiscal year-end.	\$ 44,815,570
SF13 Pension expense (6147) at fiscal year-end, excluding on-behalf pension expense (6144).	\$ -