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MIDLAND INDEPENDENT SCHOOL DISTRICT

# ANNUAL FINANCIAL REPORT

for year ended

August 31, 2016



615 WEST MISSOURI  
MIDLAND, TEXAS 79701-5017

*Educating the Future!*

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MIDLAND INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2016

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## CERTIFICATE OF BOARD

Midland Independent School District  
Midland County

Co.-Dist. Number - 165901

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  approved \_\_\_ disapproved for the year ended August 31, 2016 at a meeting of the Board of Trustees of such school district on the 23rd day of January, 2017.



Signature of Board Secretary



Signature of Board President

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**FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

To the Superintendent and the Board of Trustees  
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 year ended August 31, 2016, 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 basic 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 basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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

To the Superintendent and the Board of Trustees  
Midland Independent School District

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, and schedule of the District's contributions on pages 9 through 14, 63, 64, and 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements, the statement of changes in net assets and liabilities – agency fund, other TEA required schedules, the schedule of expenditures of federal awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Superintendent and the Board of Trustees  
Midland Independent School District

The combining nonmajor fund financial statements, the statement of changes in net assets and liabilities – agency fund, other TEA required schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates 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 and individual nonmajor fund financial statements, other 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 our report dated January 28, 2017, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

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

WEAVER AND TIDWELL, L.L.P.

Midland, Texas  
January 28, 2017

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## Midland Independent School District

### **MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED**

In this section of the Annual Financial and Compliance Report, we, the managers of Midland Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2016. Please read it in conjunction with the District's Basic Financial Statements, which follows this section.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (pages 17 through 19). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 20) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how services of the District were sold to departments within the District and how the sales revenues covered the expenses of the services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 33) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

In addition to the financial statements and accompanying notes, this report also presents certain required supplemental information that further explains and supports the information in the financial statements. The required supplemental information can be found immediately on the schedules following the notes to the financial statements.

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

#### **Reporting the District as a Whole**

##### ***The Statement of Net Position and the Statement of Activities***

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

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

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

In the Statement of Net Position and the Statement of Activities, the District reports two kinds of activity:

- Governmental activities - All of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- Component Unit - The District includes the Midland I.S.D. Education Foundation in its report. Although legally separate, the component unit is important because the District is financially accountable for it.

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the District's most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities), as well as for reporting purposes. The District's two fund types, governmental and proprietary, use different accounting approaches.

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

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

## The District as Trustee

### *Reporting the District's Fiduciary Responsibilities*

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As required by GASB 34, the following tables present a comparative summary of the government wide financial statements. We present net position measurements as required by generally accepted accounting principles and have comparative balances and changes therein between both current and prior year data and will discuss any significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental.

Net Position of the District's governmental activities decreased from \$105,240,158 to \$86,186,632. Unrestricted Net Position is the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Unrestricted Net Position was \$3,785,768.

**Table I**  
**Midland Independent School District**

<b>NET POSITION</b>			
	Governmental	Governmental	
	Activities	Activities	
	2014-2015	2015-2016	Difference
Current and Other Assets	\$ 114,338,418	\$ 67,159,519	\$ (47,178,899)
Capital Assets	310,068,729	320,132,200	10,063,471
Deferred Resource Outflows	7,094,159	27,081,064	19,986,905
Total Assets Plus Outflows	431,501,306	414,372,783	(17,128,523)
Long-term Liabilities	290,013,570	308,699,488	18,685,918
Other Liabilities	27,207,435	15,305,506	(11,901,929)
Deferred Resource Inflows	9,040,143	4,181,157	(4,858,986)
Total Liabilities Plus Inflows	326,261,148	328,186,151	1,925,003
Net Position:			
Net Investment in Capital Assets	86,379,978	76,403,516	(9,976,462)
Restricted	8,489,512	5,997,348	(2,492,164)
Unrestricted	10,370,668	3,785,768	(6,584,900)
Total Net Position	\$ 105,240,158	\$ 86,186,632	\$ (19,053,526)

**Table II**  
**Midland Independent School District**  
**CHANGE IN NET POSITION**

	Governmental Activities 2014-2015	Governmental Activities 2015-2016	Difference
<b>Program Revenues:</b>			
Charges for Services	\$ 4,099,173	\$ 4,124,595	\$ 25,422
Grants and Contributions	15,299,534	20,932,728	5,633,194
<b>General Revenue:</b>			
Maintenance and Operations Taxes	196,882,016	203,910,534	7,028,518
Debt Service Taxes	18,960,691	19,604,787	644,096
State Aid	18,737,043	19,073,633	336,590
Other Grants Not Restricted to Specific Functions	7,947,721	4,176,122	(3,771,599)
Investment Earnings	210,691	376,552	165,861
Miscellaneous	9,382,225	5,806,979	(3,575,246)
<b>Total Revenues</b>	<b>271,519,094</b>	<b>278,005,930</b>	<b>6,486,836</b>
<b>Expenses:</b>			
Instruction, Curriculum and Media Services	141,847,784	146,933,742	5,085,958
Instructional and School Leadership	16,249,855	17,356,415	1,106,560
Student Support Services	18,076,870	19,207,390	1,130,520
Child Nutrition Services	12,100,041	13,362,819	1,262,778
Cocurricular Activities	4,677,439	5,186,266	508,827
General Administration	6,535,471	6,567,443	31,972
Auxiliary Services	30,102,597	30,296,822	194,225
Community Services	799,434	457,810	(341,624)
Debt Service	12,509,671	10,063,228	(2,446,443)
Shared Service Agreements	32,362,495	47,627,521	15,265,026
<b>Total Expenditures</b>	<b>275,261,657</b>	<b>297,059,456</b>	<b>21,797,799</b>
Change in Net Position	(3,742,563)	(19,053,526)	(15,310,963)
Prior Period Adjustment	(33,482,907)	-0-	33,482,907
Beginning Net Position	142,465,628	105,240,158	(37,225,470)
<b>Ending Net Position</b>	<b>\$ 105,240,158</b>	<b>\$ 86,186,632</b>	<b>\$ (19,053,526)</b>

The District's total revenues increased approximately \$6 million. This increase was primarily due to an increase in local property tax collections. The total cost of all programs and services increased by approximately \$21.8 million, \$15 million from State recapture payments. Please note that the total cost of capital assets must be de-expended from the fund financial statements and depreciated on the government wide financials, using the full accrual method of accounting. Please refer to reconciliations on C-2 and C-4. This adjustment results in periodic fluctuations in total operating costs depending on capital assets procured during a given fiscal year.

## THE DISTRICT'S FUNDS

As the District completed the year, the fund financial statements reported a combined fund balance of \$51 million, down \$32 million from 2015 (See Exhibit C-3). The decrease is primarily due to the ongoing construction program from the 2012 bond authorization. The construction funds combined utilized \$19 million in fund balance for 2015-2016. Additionally, as stated in the above paragraph, the District paid \$15 million more in State recapture payments than in the previous year. Some of this was offset by the Transfer In from the Employee Benefit Trust funds in the amount of \$2.8 million.

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets:

At the end of 2016, the District had \$320 million (Note D), net of accumulated depreciation, invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents an increase of \$10 million, net of accumulated depreciation, from last year.

### Debt:

At year-end, the District had \$248 million in bonds and notes outstanding versus \$256.8 million last year (Note E).

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

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- The District in considering the 2016-2017 budget dealt with a reduction in property value growth from 19% to 4%. This substantially changes the funding of future budgets. As a result of the diminishing property value growth the State funding formulas initiate what is termed a lag effect in how the District is funded. This trigger results in a higher local fund assignment that prevents the District from benefitting from the lesser value growth in one year to the next. In 2016-2017 the District cut \$4 million in budgeted expenditures and subsequently cut another \$5.4 million in budgeted expenditures, planning to add back another \$3 million in fund balance. Future budgets will be developed in consideration of the planned use and any additional cuts will be implanted in 2017-2018 to avoid any additional use of fund balance.
- A positive indication of continued enrollment growth was the addition of 150 students while the District had budgeted for a flat enrollment or loss of students because of the economic slowdown. Historically, in economic downturns the District experienced enrollment losses of 5 to 10 per cent.
- Although the oil and gas industry is suffering job losses the overall unemployment rate for Midland continues to remain strong. Albeit not at the previous 3.2% the current unemployment rate of 4.2% continues to remain on the strongest in the State.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

## **BASIC FINANCIAL STATEMENTS**

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MIDLAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2016

Data Control Codes	1 Primary Government	4 Component Unit
Codes	Governmental Activities	Component Unit
<b>ASSETS</b>		
1110	Cash and Cash Equivalents	\$ 2,271,426
1120	Current Investments	716,727
1220	Property Taxes Receivable (Delinquent)	-
1230	Allowance for Uncollectible Taxes	-
1240	Due from Other Governments	-
1267	Due from Fiduciary Funds	-
1290	Other Receivables, net	-
1300	Inventories	-
1490	Other Current Assets	-
	Capital Assets:	
1510	Land	-
1520	Buildings, Net	-
1530	Furniture and Equipment, Net	-
1580	Construction in Progress	-
1000	Total Assets	2,988,153
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
1700	Deferred Charge on Refunding	-
1705	Deferred Resource Outflow - Pension	-
2600	Total Deferred Outflows of Resources	-
<b>LIABILITIES</b>		
2110	Accounts Payable	-
2140	Interest Payable	-
2150	Payroll Deductions & Withholdings	-
2160	Accrued Wages Payable	-
2300	Unearned Revenue	-
2400	Payable from Restricted Assets	-
	Noncurrent Liabilities	
2501	Due Within One Year	-
2502	Due in More than One Year	-
2540	Net Pension Liability (Districts Share)	-
1000	Total Liabilities	-
<b>DEFERRED INFLOWS OF RESOURCES</b>		
2605	Deferred Resource Inflow - Pension	-
2600	Total Deferred Inflows of Resources	-
<b>NET POSITION</b>		
3200	Net Investment in Capital Assets	-
	Restricted for:	
3840	Restricted for Food Service	-
3850	Restricted for Debt Service	-
3890	Restricted for Other Purposes	2,988,153
3900	Unrestricted	-
	Total Net Position	\$ 2,988,153

The notes to the financial statements are an integral part of this statement.

MIDLAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	1 Expenses	Program Revenues			
		3 Charges for Services	4 Operating Grants and Contributions	5 Capital Grants and Contributions	
Primary Government					
GOVERNMENTAL ACTIVITIES					
11	Instruction	\$ 136,326,250	\$ 302,513	\$ 13,575,065	\$ -
12	Instructional Resources and Media Services	2,848,659	-	123,204	-
13	Curriculum and Staff Development	7,758,833	-	2,340,077	-
21	Instructional Leadership	3,928,579	-	629,854	-
23	School Leadership	13,427,836	-	756,139	-
31	Guidance, Counseling and Evaluation Services	8,472,166	-	1,780,773	-
32	Social Work Services	349,969	-	12,858	-
33	Health Services	2,320,889	-	94,803	-
34	Student (Pupil) Transportation	8,064,366	-	254,600	100,812
35	Food Services	13,362,819	3,364,260	105,901	6,682
36	Extracurricular Activities	5,186,266	401,452	78,323	-
41	General Administration	6,567,443	-	243,210	-
51	Facilities Maintenance and Operations	23,281,118	-	509,608	-
52	Security and Monitoring Services	1,689,942	-	65,945	-
53	Data Processing Services	5,325,762	56,370	155,424	-
61	Community Services	457,810	-	99,450	-
72	Debt Service - Interest on Long Term Debt	10,063,228	-	-	-
91	Contracted Instructional Services Between Schools	47,592,168	-	-	-
93	Payments related to Shared Services Arrangements	35,353	-	-	-
	[TP] TOTAL PRIMARY GOVERNMENT:	<u>297,059,456</u>	<u>4,124,595</u>	<u>20,825,234</u>	<u>107,494</u>
Component Unit:					
	IC Component Unit	<u>6,428,376</u>	<u>-</u>	<u>3,522,196</u>	<u>-</u>
	[TC] TOTAL COMPONENT UNITS:	<u>6,428,376</u>	<u>-</u>	<u>3,522,196</u>	<u>-</u>
Data Control Codes					
General Revenues:					
Taxes:					
MT	Property Taxes, Levied for General Purposes				
DT	Property Taxes, Levied for Debt Service				
GC	Grants and Contributions not Restricted				
IE	Investment Earnings				
MI	Miscellaneous Local and Intermediate Revenue				
TR	Transfer In - from Employee Benefits Trust Fund				
TR	Total General Revenues				
CN	Change in Net Postion				
NB	Net Position - Beginning				
NE	Net Position - Ending				

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position	
6	9
Primary Government Governmental Activities	Component Unit Component Unit
\$ (122,448,672)	\$ -
(2,725,455)	-
(5,418,756)	-
(3,298,725)	-
(12,671,697)	-
(6,691,393)	-
(337,111)	-
(2,226,086)	-
(7,708,954)	-
(9,885,976)	-
(4,706,491)	-
(6,324,233)	-
(22,771,510)	-
(1,623,997)	-
(5,113,968)	-
(358,360)	-
(10,063,228)	-
(47,592,168)	-
(35,353)	-
(272,002,133)	-
-	(2,906,180)
-	(2,906,180)
203,910,534	-
19,604,787	-
23,249,755	-
376,552	4,659
4,140,712	-
1,666,267	-
252,948,607	4,659
(19,053,526)	(2,901,521)
105,240,158	5,889,674
\$ 86,186,632	\$ 2,988,153

MIDLAND INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2016

Data Control Codes	10 General Fund	National School Brkfst/Lunch	50 Debt Service Fund
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 9,100,086	\$ 2,989,817	\$ 191,720
1120 Investments - Current	20,755,308	7,391,648	3,933,536
1220 Property Taxes - Delinquent	4,866,467	-	467,817
1230 Allowance for Uncollectible Taxes (Credit)	(2,092,581)	-	(201,161)
1240 Receivables from Other Governments	2,594,573	312,461	-
1260 Due from Other Funds	16,880,650	-	-
1290 Other Receivables	765,241	-	-
1300 Inventories	260,296	1,064,594	-
1490 Other Current Assets	296,359	-	-
1000 Total Assets	<u>\$ 53,426,399</u>	<u>\$ 11,758,520</u>	<u>\$ 4,391,912</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 1,880,808	\$ 149,577	\$ -
2150 Payroll Deductions and Withholdings Payable	1,861,801	-	-
2160 Accrued Wages Payable	5,085,544	329,147	-
2170 Due to Other Funds	469,260	9,738,045	-
2300 Unearned Revenues	134,572	-	-
2000 Total Liabilities	<u>9,431,985</u>	<u>10,216,769</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	2,088,729	-	201,080
2600 Total Deferred Inflows of Resources	<u>2,088,729</u>	<u>-</u>	<u>201,080</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3410 Inventories	260,296	1,064,594	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	477,157	-
3470 Capital Acquisition and Contractual Obligation	-	-	-
3480 Retirement of Long-Term Debt	-	-	4,190,832
3490 Other Restricted Fund Balance	-	-	-
3600 Unassigned Fund Balance	41,645,389	-	-
3000 Total Fund Balances	<u>41,905,685</u>	<u>1,541,751</u>	<u>4,190,832</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 53,426,399</u>	<u>\$ 11,758,520</u>	<u>\$ 4,391,912</u>

The notes to the financial statements are an integral part of this statement.

60 Capital Projects	Other Funds	Total Governmental Funds
\$ -	\$ 455,219	\$ 12,736,842
5,793,684	-	37,874,176
-	-	5,334,284
-	-	(2,293,742)
-	4,039,183	6,946,217
-	38,813	16,919,463
-	-	765,241
-	-	1,324,890
-	-	296,359
<u>\$ 5,793,684</u>	<u>\$ 4,533,215</u>	<u>\$ 79,903,730</u>
\$ 519,049	\$ 403,891	\$ 2,953,325
-	-	1,861,801
-	353,819	5,768,510
1,894,072	3,559,700	15,661,077
-	129,164	263,736
<u>2,413,121</u>	<u>4,446,574</u>	<u>26,508,449</u>
-	-	2,289,809
-	-	2,289,809
-	-	1,324,890
-	82,172	559,329
3,380,563	-	3,380,563
-	-	4,190,832
-	4,469	4,469
-	-	41,645,389
<u>3,380,563</u>	<u>86,641</u>	<u>51,105,472</u>
<u>\$ 5,793,684</u>	<u>\$ 4,533,215</u>	<u>\$ 79,903,730</u>

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MIDLAND INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2016

<b>Total Fund Balances - Governmental Funds</b>	\$	51,105,472
 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		78,574
 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$438,321,145 and the accumulated depreciation was (\$128,997,112). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		17,511,426
 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase net position.		27,522,917
 Included in the items related to debt is the recognition of the District's additional proportionate share of the net pension liability required by GASB 68 in the amount of \$26,627,384, a reduction of Deferred Resource Inflow related to TRS in the amount of \$4,858,986 and an increase in Deferred Resource Outflow related to TRS in the amount of \$17,557,795. This amounted to a decrease in Net Position in the amount of \$4,210,603.		(4,210,603)
 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(9,913,442)
 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		4,092,288
 <b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>86,186,632</b>

The notes to the financial statements are an integral part of this statement.

MIDLAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	10 General Fund	National School Brkfst/Lunch	50 Debt Service Fund
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 209,354,215	\$ 3,397,755	\$ 19,702,748
5800 State Program Revenues	14,057,359	57,816	236,094
5900 Federal Program Revenues	4,062,794	6,937,076	-
5020 Total Revenues	<u>227,474,368</u>	<u>10,392,647</u>	<u>19,938,842</u>
EXPENDITURES:			
Current:			
0011 Instruction	114,359,654	-	-
0012 Instructional Resources and Media Services	2,500,650	-	-
0013 Curriculum and Instructional Staff Development	5,314,804	-	-
0021 Instructional Leadership	3,182,536	-	-
0023 School Leadership	12,250,137	-	-
0031 Guidance, Counseling and Evaluation Services	6,341,031	-	-
0032 Social Work Services	324,789	-	-
0033 Health Services	2,192,420	-	-
0034 Student (Pupil) Transportation	6,875,747	-	-
0035 Food Services	-	12,553,923	-
0036 Extracurricular Activities	4,061,485	-	-
0041 General Administration	6,340,421	-	-
0051 Facilities Maintenance and Operations	21,106,908	-	-
0052 Security and Monitoring Services	1,609,427	-	-
0053 Data Processing Services	5,144,892	-	-
0061 Community Services	356,036	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	-	7,550,000
0072 Interest on Long Term Debt	-	-	9,979,032
0073 Bond Issuance Cost and Fees	-	-	2,977,169
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	-
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	47,592,168	-	-
0093 Payments to Fiscal Agent/Member Districts of SSA	35,353	-	-
6030 Total Expenditures	<u>239,588,458</u>	<u>12,553,923</u>	<u>20,506,201</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(12,114,090)</u>	<u>(2,161,276)</u>	<u>(567,359)</u>
OTHER FINANCING SOURCES (USES):			
7911 Capital Related Debt Issued-Refunding	-	-	38,495,000
7915 Transfers In	2,826,371	800,000	-
7916 Premium or Discount on Issuance of Bonds	-	-	3,519,627
8911 Transfers Out (Use)	-	-	-
8949 Other (Uses) - Refunding	-	-	(41,538,611)
7080 Total Other Financing Sources (Uses)	<u>2,826,371</u>	<u>800,000</u>	<u>476,016</u>
1200 Net Change in Fund Balances	(9,287,719)	(1,361,276)	(91,343)
0100 Fund Balance - September 1 (Beginning)	51,193,404	2,903,027	4,282,175
3000 Fund Balance - August 31 (Ending)	<u>\$ 41,905,685</u>	<u>\$ 1,541,751</u>	<u>\$ 4,190,832</u>

The notes to the financial statements are an integral part of this statement.

60 Capital Projects	Other Funds	Total Governmental Funds
\$ 47,357	\$ 202,993	\$ 232,705,068
-	4,722,364	19,073,633
-	9,327,014	20,326,884
47,357	14,252,371	272,105,585
-	9,367,472	123,727,126
-	34,747	2,535,397
-	2,101,336	7,416,140
-	545,064	3,727,600
-	289,653	12,539,790
-	1,548,866	7,889,897
-	-	324,789
-	-	2,192,420
-	111,462	6,987,209
-	112,583	12,666,506
-	-	4,061,485
-	53,388	6,393,809
3,289	-	21,110,197
-	-	1,609,427
-	-	5,144,892
-	84,019	440,055
-	-	7,550,000
-	-	9,979,032
-	-	2,977,169
19,677,220	166,010	19,843,230
-	-	47,592,168
-	-	35,353
19,680,509	14,414,600	306,743,691
(19,633,152)	(162,229)	(34,638,106)
-	-	38,495,000
364,903	-	3,991,274
-	-	3,519,627
-	(2,325,007)	(2,325,007)
-	-	(41,538,611)
364,903	(2,325,007)	2,142,283
(19,268,249)	(2,487,236)	(32,495,823)
22,648,812	2,573,877	83,601,295
\$ 3,380,563	\$ 86,641	\$ 51,105,472

MIDLAND INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2016

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(32,495,823)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.		(1,440,260)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase net position.		27,522,917
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(9,913,442)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		1,483,686
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of \$4,173,733. The District recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. The amounts expensed for FY2015 were \$10,643,739 for pension expense columns 6 - 12 from TRS data, resulting in a decrease in the ending net position. The amounts de-expended for the net deferred resource inflow recognized by TRS in the measurement period were (\$2,259,403) and resulted in an increase in net position. The impact of all of these is to decrease the change in net position by \$4,210,603.		(4,210,603)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>(19,053,525)</b>

The notes to the financial statements are an integral part of this statement.

MIDLAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2016

Data Control Codes		Internal Service Funds
<b>ASSETS</b>		
Current Assets:		
1110	Cash and Cash Equivalents	\$ 399,683
1120	Investments - Current	2,086,736
1260	Due from Other Funds	430,447
1520	Buildings	792,741
1521	Depreciation on Buildings	<u>(76,872)</u>
1000	Total Assets	<u>3,632,735</u>
<b>LIABILITIES</b>		
Current Liabilities:		
2110	Accounts Payable	83,838
2400	Accrued Expenses	<u>3,470,323</u>
2000	Total Liabilities	<u>3,554,161</u>
<b>NET POSITION</b>		
3200	Investment in Capital Assets	715,869
3300	Unrestricted Net Position	<u>(637,295)</u>
3000	Total Net Position	<u><u>\$ 78,574</u></u>

The notes to the financial statements are an integral part of this statement.

MIDLAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		Internal Service Funds
	<b>OPERATING REVENUES</b>	
5700	Local and Intermediate Sources	\$ 18,983,506
5020	Total Operating Revenues	<u>18,983,506</u>
	<b>OPERATING EXPENSES:</b>	
6100	Payroll Costs	233,025
6200	Contracted Services	337,916
6300	Supplies and Materials	5,798
6400	Other Operating Costs	<u>19,857,244</u>
	Total Operating Expenses	<u>20,433,983</u>
	Operating (Loss)/Income	(1,450,477)
	<b>NONOPERATING REVENUE (EXPENSES):</b>	
7955	Earnings from Investments	<u>10,217</u>
	Change in Net Position	(1,440,260)
0100	Total Net Position - September 1 (Beginning)	<u>1,518,834</u>
3000	Total Net Position - August 31 (Ending)	<u><u>\$ 78,574</u></u>

The notes to the financial statements are an integral part of this statement.

MIDLAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

	Internal Service Funds
Cash Flow from Operating Activities:	
Cash Receipts from Quasi-external Operating Activities with Other Funds	\$ 17,607,489
Cash Payments to Suppliers for Goods and Benefits	(20,578,783)
Net Cash From Operating Activities	<u>(2,971,294)</u>
Cash Flows from Investing Activities:	
Interest on Investments	10,217
Sale of Investments	1,632,995
Net Cash From Investing Activities	<u>1,643,212</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,328,082)
Cash and Cash Equivalents at the Beginning of Year	<u>1,727,765</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 399,683</u></u>
<u>Reconciliation of Operating Loss/Income to Net Cash</u>	
<u>From Operating Activities:</u>	
Operating (Loss)/Income	\$ (1,450,477)
Adjustments to Reconcile Operating Income (loss) to Net Cash from Operating Activities:	
Depreciation	28,827
Effect of Increases and Decreases in Current Assets and Liabilities	
(Increase) Decrease in Due from Other Funds	(389,197)
Increase (Decrease) in Accounts Payable	59,723
Increase (Decrease) in Due to Other Funds	(641,416)
Decrease in Payable from Restricted Assets	<u>(578,754)</u>
Net Cash From Operating Activities	<u><u>\$ (2,971,294)</u></u>

The notes to the financial statements are an integral part of this statement.

MIDLAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2016

Data Control Codes		Private Purpose Trust Funds	Employee Benefits Trust Fund	Student Activity Fund
	ASSETS			
1110	Cash and Cash Equivalents	\$ 52,149	\$ 694,466	\$ 932,284
1120	Investments - Current	353,294	457,650	-
1290	Other Receivables	-	722,961	-
1000	Total Assets	<u>\$ 405,443</u>	<u>\$ 1,875,077</u>	<u>\$ 932,284</u>
	LIABILITIES			
2110	Accounts Payable	\$ -	\$ 70,736	\$ 3,201
2170	Due to Other Funds	22,566	1,666,267	-
2400	Payable from Restricted Assets	382,877	-	-
2420	Due to Student Groups	-	-	929,083
2420	Due to Employees	-	138,074	-
2000	Total Liabilities	<u>\$ 405,443</u>	<u>\$ 1,875,077</u>	<u>\$ 932,284</u>
	NET POSITION			
	Unrestricted Net Position	\$ -		
3000	Total Net Position	<u><u>\$ -</u></u>		

The notes to the financial statements are an integral part of this statement.

MIDLAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR YEAR ENDED AUGUST 31, 2016

	Private Purpose Trust Funds	Employee Benefits Trust Funds
Additions		
Contributions:		
Private Donations	\$ 18,035	\$ -
Decrease in Payable from Restricted Assets	-	519,200
Plan Members Contributions	-	114,936
Total Contributions	<u>18,035</u>	<u>634,136</u>
Investment Earnings:		
Interest	931	1,207
Total Investment Earnings	<u>931</u>	<u>1,207</u>
Total Additions	<u>\$ 18,966</u>	<u>\$ 635,343</u>
Deductions		
Benefits	\$ 14,307	\$ -
Increase in Payable from Restricted Assets	4,659	-
Use of Forfeitures	-	635,343
Total Deductions	<u>\$ 18,966</u>	<u>\$ 635,343</u>
Change in Net Position	<u>-</u>	<u>-</u>
Net Position - Beginning	<u>-</u>	<u>-</u>
Net Position - Ending	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

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## MIDLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

#### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **A. REPORTING ENTITY**

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

#### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

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

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

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

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

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

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

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

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

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

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

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

#### **D. FUND ACCOUNTING**

The District reports the following major governmental funds:

1. **The General Fund** - is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **National School Breakfast and Lunch Program Fund**- is used to account for federal reimbursement revenue from the United States Department of Agriculture as well as user fees (meal charges) for the National School Breakfast and Lunch Programs.
3. **The Debt Service Fund** - is used to account for the District's current portion of voter approved debt and the Foundation School Program's facilities allotment for bonded indebtedness.
4. **Capital Projects Fund** – is used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Additionally, the District reports the following nonmajor fund types:

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in Special Revenue Funds. Most federal and some state financial assistance is accounted for in a Special Revenue Fund, and sometimes, unused balances must be returned to the grantor at the close of specified project periods.
2. **Permanent Funds** – Donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Proprietary Funds:

3. **Enterprise Funds** – Activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has no enterprise funds.
4. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District has an Internal Service Fund for health, dental and workers compensation benefits and another Internal Service Fund for employee housing.

Fiduciary Funds:

5. **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.
6. **Employee Benefit Trust Funds** – These funds are used to account for local pension and other employee benefit funds that are provided by the District in lieu of or in addition to the Teacher Retirement System of Texas. The District's Employee Benefit Trust Funds are the matching annuity and section 125 funds.

7. **Investment Trust Fund** - This fund is one in which the District holds assets in trust for other entities participating in an investment program managed by the district. The District has no Investment Trust Funds.
8. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the student activity fund.

## E. OTHER ACCOUNTING POLICIES

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

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

**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.

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

Current year tax collections are credited to the appropriate fund as per the tax rate ordinance approved by the Board of Trustees. For the fiscal year ended August 31, 2016, the rates were \$1.04005 for maintenance and \$.10 for debt service respectively, per \$100 of assessed value.

**Delinquent Taxes Receivable** - Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. Over the past four years, the property tax receivable allowance averages to 12 % of the outstanding property taxes at August 31, 2016.

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

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	40
Buses	10
Other Vehicles	5
Office Equipment	5
Computer Equipment	5

**Fund Balances and Net Position -**

**Government-Wide Financial Statements**

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

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

Restricted for food service - the component of net position that reports the fund balance of the National School Breakfast/Lunch Program.

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

Restricted for other purposes - component of net position that can be spent only for the specific purposes because of constraints imposed by the external providers, or imposed by constitutional provisions or enabling legislation. As of August 31, 2016, the primary government has \$264,765 that is restricted for inventory and prepaid items. As of the same date, the component unit has \$2,988,153 this is restricted for student and employee scholarships and employee incentives.

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

## **Governmental Fund Financial Statements**

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

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

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

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

Committed -- includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action in an open meeting of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the District's Board of Trustees. This classification is comprised primarily of funds committed to construction. At August 31, 2016 the District had no committed fund balance classifications.

Assigned -- includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. Fund balance can be assigned by the District's Board, the Superintendent, or the Chief Financial Officer pursuant to the District's fund balance policy. At August 31, 2016 the District had no assigned fund balance classifications.

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

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

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

**Accounting Estimates** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets

and liabilities and the reported amounts of revenues and expenditures. Actual results could differ from those reported.

The amount of state foundation school revenue a school district earns for a year, can and does vary until the time when final PEIMS submissions have been factored into the formula. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that there could be a minimal change to foundation revenue as calculated at August 31, 2016.

## II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

Capital Assets	Historical Costs	Accumulated Depreciation	Net Value at the Beginning of Year	Change in Net Position
Land	\$ 9,009,142	\$ -----	\$ 9,009,142	
Buildings & Improvements	358,829,165	(105,019,287)	253,809,878	
Construction in Progress	41,547,722	-----	41,547,722	
Furniture & Equipment	28,935,116	(23,977,825)	4,957,291	
<b>Other Assets</b>	<b>Beginning Balances</b>			
Prepaid Rent	626,631			
Net Change in Assets				\$ 309,950,664
<b>Deferred Outflow of Resources</b>	<b>Beginning Balances</b>			
Def. Resource Outflow - Pension	7,094,159			
Net Change in Deferred Outflow of Resources				7,094,159
<b>Long-term Liabilities</b>	<b>Beginning Balances</b>			
Bonds Payable (net of accretion and amortized premium)	(256,784,624)			
Net Pension Liability	(29,552,326)			
Other Payables	(4,156,304)			
Net Change in Liabilities				(290,493,254)
<b>Deferred Inflow of Resources</b>	<b>Beginning Balances</b>			
Def. Resource Inflow - Pension	(9,040,143)			
Net Change in Deferred Inflow of Resources				(9,040,143)
<b>Total Adjustment to Net Position</b>				<b>\$ (17,511,426)</b>

Another element of the reconciliation on Exhibit C-2 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

<b>Reclassifications:</b>	<b>Amount</b>
Adjustments to Taxes - General Levy	\$ (290,692)
Adjustments to Taxes - Debt Service Levy	(28,101)
Adjustments to Expense – Prepaid Rent	(626,631)
Adjustments to Expense - Deferred Charge on Refunding	2,429,110
<b>Total Adjustments to Net Position</b>	<b>\$ 1,483,686</b>
Remove Prior year Tax Levy Adjustments	\$ 2,608,602
<b>Total Adjustments to Change in Net Position</b>	<b>\$ 4,092,288</b>

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

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

<b>Capital Outlays &amp; Long-Term Debt:</b>	<b>Amount</b>
Additions – Buildings & Improvements	\$ 27,068,110
Additions – Construction in Progress	18,875,647
Deletions – Construction in Progress	(27,203,878)
Additions - Furniture & Equipment	1,278,236
Gain on Disposal of Assets	8,818
Proceeds on Sale of Property	(21,193)
Compensated Absence – Addition	(20,670)
Bond Principal Issue net of Payments	(38,495,000)
Unamortized Issuance Discounts/Premiums on Bond	(3,994,848)
Retirements on Bonds and Bond Discounts/Premiums	50,451,984
Miscellaneous	(424,289)
<b>Decrease to Change in Net Position for Capital Outlay and Long-Term Debt (C-4)</b>	<b>\$ 27,522,917</b>

### **III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

#### **BUDGETARY DATA**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the National School Breakfast/Lunch Program. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-4 and J-5.

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

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

### **IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

#### **A. DEPOSITS AND INVESTMENTS**

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

At June 28, 2016, the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held in the district's name by the district's agent. In addition,, the following is disclosed regarding coverage of combined balances on the date of the highest deposit:

1. Name of bank: Wells Fargo Bank
2. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$33,810,667 and occurred on June 28, 2016.
3. Largest combined collected cash account balance required to be collateralized amounted to \$29,856,891 and occurred on June 28, 2016.
4. The total amount of FDIC coverage at the time of the largest combined balance was \$250,000 at June 28, 2016.

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

The Public Funds Investment Act (Governments Code Chapter 2256) contains specific provisions in the area of investment practices, management reports and establishment of appropriate policies. Among other things, it requires

the district to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable expenditures, (4) acceptable risk levels, (5) expected rate of return, (6) maximum allowable stated maturity, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

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

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

#### Policies Governing Deposits and Investments

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

a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposit may not be returned. The District's policy regarding types of deposits allowed and collateral requirements is as follows. The depository bank is required by contract to collateralize all deposits as described by the Public Funds Investment Act with, (1) the market value of pledged securities, (2) a corporate surety bond or (3) FDIC Insurance. The District's depository is required to collateralize deposits by a value equal to at least 110% of the ledger balance up to a maximum of fifteen million dollars. All deposits were fully collateralized for the 2015-2016 fiscal year.

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

#### Investment in State Investment Pools

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

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

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

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

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

The cash and investments held at August 31, 2016 are as follows:

	Fair Value	Rating	WAM (1)	WAM (2)
Cash and Imprest Funds	\$ 17,086,850	Aa3 per Moody's	N/A	N/A
Texpool	13,904,407	AAAm per Standard and Poors	42 Days	80 Days
Texpool Prime	13,855,231	AAAm per Standard and Poors	37 Days	51 Days
Lone Star/First Public	8,345,447	AAAm per Standard and Poors	41 Days	53 Days
Texas Class	4,365,573	AAAm per Standard and Poors	47 Days	n/a
Texas Term- TexasDAILY	<u>1,017,925</u>	AAAm per Standard and Poors	43 Days	n/a
	\$ <u>58,575,433</u>			

WAM (Weighted Average Maturity)

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

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

Cash and investments as of August 31, 2016 are classified in the accompanying financial statements as follows:

Governmental funds	\$ 50,611,018
Proprietary funds	2,486,419
Fiduciary funds	2,489,843
Component Unit	<u>2,988,153</u>
	\$ <u>58,575,433</u>

## B. CONCENTRATION OF CREDIT RISK

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

### C. INTERFUND RECEIVABLES AND PAYABLES

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

Interfund balances at August 31, 2016, resulting from payroll and accumulated fund charges, consisted of the following individual fund balances:

	General Fund	Special Revenue	Capital Projects	Internal Service	Trust & Agency	Total
Due From General Fund	\$ -	\$ 38,813	\$ -	\$ 430,447	\$ -	\$469,260
Due From Special Revenue Funds	13,297,745	-	-	-	-	13,297,745
Due From Debt Service Funds	-	-	-	-	-	-
Due From Capital Projects Fund	1,894,072	-	-	-	-	1,894,072
Due From Enterprise Funds	-	-	-	-	-	-
Due From Internal Service Funds	-	-	-	-	-	-
Due From Trust & Agency Funds	1,688,833	-	-	-	-	1,688,833
<b>Total Due From</b>	<b>\$ 16,880,650</b>	<b>\$ 38,813</b>	<b>\$ -</b>	<b>\$ 430,447</b>	<b>\$ -</b>	<b>\$17,349,910</b>
Due To General Fund	\$ -	\$13,297,745	\$1,894,072	\$ -	\$1,688,833	\$16,880,650
Due To Special Revenue Funds	38,813	-	-	-	-	38,813
Due To Debt Service Fund	-	-	-	-	-	-
Due To Enterprise Funds	-	-	-	-	-	-
Due To Capital Projects Fund	-	-	-	-	-	-
Due To Internal Service Funds	430,447	-	-	-	-	430,447
Due To Trust & Agency Funds	-	-	-	-	-	-
<b>Total Due To</b>	<b>\$ 469,260</b>	<b>\$13,297,745</b>	<b>\$1,894,072</b>	<b>\$ -</b>	<b>\$1,688,833</b>	<b>\$17,349,910</b>

Interfund transfers for the year ended August 31, 2016 consisted of the following amounts:

<b>Transfers Out</b>	<b>Totals</b>
Special Revenue Fund	
Summer Feeding Program	\$ 800,000
Sub Total – Special Revenue Fund	\$ 800,000
Capital Projects Fund	
Technology Infrastructure Project to GF	\$ 1,160,104
Technology Infrastructure Project to Construction Fund	364,903
Sub Total – Capital Projects Fund	1,525,007
Employee Benefit Trust Fund	
Matching Annuity Fund	\$ 1,081,361
Section 125 Fund	584,906
Sub Total – Empl. Ben. Trust Fund	1,666,267
<b>Total - Transfers Out</b>	<b>\$3,991,274</b>

<b>Transfers In</b>	<b>Totals</b>
General Fund	
From Technology Infrastructure Fund	\$1,160,104
From Matching Annuity Fund	1,081,361
From Section 125 Fund	584,906
Sub Total – Special Revenue	<u>\$2,826,371</u>
Special Revenue Fund	
National Schol Brkfst/Lunch Program	<u>\$ 800,000</u>
Sub Total – Special Revenue	<u>\$ 800,00</u>
Capital Projects Fund	
Construction Project	<u>\$ 364,903</u>
Sub Total – Capital Projects Fund	<u>\$ 364,903</u>
 Total - Transfers In	 <u>\$3,991,274</u>

#### D. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2016, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Land	\$ 9,009,142	\$ -	\$ -	\$ 9,009,142
Buildings and Improvements	358,829,165	27,068,110	-	385,897,275
Construction in Progress	41,547,722	18,875,647	(27,203,878)	33,219,491
Furniture and Equipment	28,935,116	1,278,236	(1,018,101)	29,195,251
Total at Historic Cost	438,321,145	47,221,993	(28,221,979)	457,321,159
<b>Less Accumulated Depreciation:</b>				
Buildings and Improvements	(105,019,287)	(8,477,013)	-	(113,496,300)
Furniture and Equipment	(23,977,825)	(1,436,429)	1,005,726	(24,408,528)
Total Accum. Depr.	(128,997,112)	(9,913,442)	1,005,726	(137,904,828)
<b>Total Governmental Activities Capital Assets, net of depreciation</b>	<b>309,324,033</b>	<b>37,308,551</b>	<b>(27,216,253 )</b>	<b>319,416,331</b>
<b>Internal Service Funds:</b>				
Buildings and Improvements	792,741	-	-	792,741
Less Accumulated Depreciation	(48,045)	(28,827)	-	(78,872)
<b>Total Internal Service Fund Capital Assets, net of depreciation</b>	<b>744,696</b>	<b>(28,827)</b>	<b>-</b>	<b>715,869</b>
<b>Total Capital Assets, net of depreciation</b>	<b>\$ 310,068,729</b>	<b>\$ 37,279,724</b>	<b>\$ (27,216,253 )</b>	<b>\$ 320,132,200</b>

<b>Depreciation expense was charged to governmental functions as follows:</b>	<b>Amount</b>
Instruction	\$ 5,726,817
Instructional Resources and Media Services	208,570
Curriculum and Instructional Staff Development	24,963
Instructional Leadership	7,490
School Leadership	244,111
Guidance, Counseling and Evaluation Services	11,091
Social Work Services	12,626
Health Services	23,458
Student (Pupil) Transportation	905,966
Food Services	447,618
Extracurricular Activities	1,006,480
General Administration	28,845
Plant Maintenance and Operations	1,153,145
Security and Monitoring Service	62,172
Data Processing Services	50,090
<b>Total Adjustment to Net Position (See C-2 and C-4)</b>	<b>\$ (9,913,442)</b>

## E. BONDS PAYABLE

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

Outstanding Bonded Debt as of August 31, 2016 is as follows:

<u>Issue</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Matures</u>	<u>Debt Outstanding</u>
\$ 37,035,000	Series 2007 Unl Tax Bldg Bds	4.375 – 4.75.0%	2017	270,000
\$ 4,634,990	Series 2009 Unl Tax Bldg Bds	1.30%	2020	515,000
\$ 26,500,000	Series 2011 Unl Tax Bldg Bds	1.75 – 5.0%	2028	21,265,000
\$ 22,835,000	Series 2012 Unl Tax Bldg Bds	3.0 – 5.0%	2028	21,985,000
\$ 70,175,000	Series 2013 Unl Tax Bldg Bds	3.0 – 5.0%	2028	58,135,000
\$ 85,235,000	Series 2014 Unl Tax Bldg Bds	3.0 – 5.0%	2035	84,230,000
\$ 38,495,000	Series 2015 Unl Tax Bldg Bds	2.0 – 5.0%	2040	37,620,000
	Total Bonded Debt			224,020,000
	Plus: Unamortized Premium on Refundings			24,802,488
	Total Bonded Debt Long Term			<u>\$ 248,822,488</u>

A summary of long term debt transactions as of August 31, 2016 is as follows:

	Balance at <u>9/1/2015</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>8/31/2016</u>	Due Within <u>One Year</u>
General Obligation Bonds	\$ 234,680,000	\$ 38,495,000	\$ (49,155,000)	\$ 224,020,000	\$ 6,905,000
Unamortized Issuance					
Discounts/Premiums	23,372,085	3,994,848	(1,296,984)	24,802,488	1,296,984
Total Bonds Payable	<u>\$ 256,784,624</u>	<u>\$ 42,489,488</u>	<u>\$ (50,451,984)</u>	<u>\$ 248,822,488</u>	<u>\$ 8,201,984</u>

Debt service requirements are as follows:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$8,201,983	\$10,234,350	\$18,436,333
2018	\$8,416,984	\$10,019,388	\$18,436,372
2019	\$8,686,984	\$9,754,975	\$18,441,959
2020	\$8,987,163	\$9,453,313	\$18,440,476
2021	\$9,427,343	\$9,124,813	\$18,552,156
2022-2026	\$50,611,716	\$39,891,238	\$90,502,954
2027-2031	\$57,490,293	\$28,528,025	\$86,018,318
2032-2036	\$57,457,320	\$15,918,450	\$73,375,770
2037-2040	\$39,542,702	\$3,205,500	\$42,748,202
<b>Total</b>	<b>\$ 248,822,488</b>	<b>\$136,130,052</b>	<b>\$ 384,952,540</b>

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

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

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

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

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

On May 8, 2012 the Midland Independent School District issued \$22, 835,000 in Unlimited Tax Refunding Bonds 2012 to retire \$24,665,000 of Unlimited Tax School Building Bonds Series 2004. The Series 2004 Bonds will be redeemed on February 15, 2015. The refunding had a net reoffering premium of \$4,058,798 and a transfer of \$414,670 from Prior Issue

Debt Service Funds and an issuance cost of \$299,298. The investment will be adequate to retire the full amount of refunded bonds, which had a total book value of \$24,665,000. The extinguishment of these bonds qualifies as an in-substance defeasance of debt; therefore the entire amount is removed from the bond liability. The purpose of the refunding was to lower the overall service requirements of the District. The refunding decreased outstanding principal or total debt by approximately \$1,830,000 and resulted in an economic gain total net present value savings of \$3,042,296.

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

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

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of August 31, 2016.

In prior years, the District issued refunding bonds for the purpose of restructuring outstanding debt service requirements or decreasing the total debt service payments. These refunding issues defeased selected general obligation and maintenance bonds. The total principal outstanding of the insubstance defeased debt as of August 31, 2016 is \$ -0-.

## **F. ACCUMULATED UNPAID SICK LEAVE BENEFITS**

The District has adopted a policy to reimburse, upon retirement of employees, who have a minimum of ten years experience with the District, accrued sick leave up to 30 days. Any sick leave in excess of the 30-day accumulation is budgeted and paid within the current period. At August 31, 2016, the District's liability for unused sick leave is \$3,697,290.

## **G. DEFINED BENEFIT PENSION PLAN**

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

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

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

**Benefits Provided** - TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using

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

**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 83<sup>rd</sup> Texas legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for the fiscal years 2016 and 2017.

	Contribution Rates	
	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Employer #0901	2016
Employer Contributions	\$ 4,705,922
Member Contributions	4,094,081
NECE on-behalf Contributions	6,684,139

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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date - August 31, 2015  
 Actuarial Cost Method - Individual Entry Age Normal  
 Asset Valuation Method - Market Value  
 Discount Rate - 8.00%  
 Long-term expected Investment Rate of Return - 8.00%  
 Inflation - 2.5%  
 Salary Increases including inflation - 3.5% to 9.5%  
 Payroll Growth Rate - 2.50%  
 Benefit changes during the year - None  
 Ad hoc post-employment benefit changes - None

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, 2015 are summarized below:

Teacher Retirement System of Texas  
 Asset Allocation and long-Term Expected Real Rate of Return  
 As of August 31,2015

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	7.0%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
	100%		8.7%

\* 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 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	\$ 88,023,017	\$ 56,179,170	\$ 29,656,215

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension*** -. At August 31, 2016, the District reported a liability of \$56,179,170 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 collective net pension liability	\$ 56,179,170
State's proportionate share that is associated with the District	<u>78,651,973</u>
Total	<u>\$ 134,831,143</u>

The net pension liability was measured as of August 31, 2015 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, 2014 thru August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was .1589302% which was an increase from .1106132% from its proportion measured as of August 31, 2014.

**Changes Since the Prior Actuarial Valuation** – The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

*Economic Assumptions*

1. The inflation assumption was decreased from 3.00 to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.5% to 2.50%.

*Mortality Assumptions*

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.



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

Year ended August 31:	Pension Expense Amount
2017	\$ 7,336,687
2018	2,762,663
2019	2,762,663
2020	5,020,762
2021	1,538,110
Thereafter	1,049,912

#### H. HEALTH CARE COVERAGE

The District sponsors a modified self-insurance plan to provide health care benefits to staff members and their dependents. Transactions related to the plan are accounted for in the Health Insurance Fund (the "Fund"), an internal service fund of the District. Partial staff member contributions are required for personal coverage and total staff member contributions are required for coverage of dependents. The District obtained excess loss insurance, which limited annual claims paid from the Fund for the year ended August 31, 2016, to \$150,000 for any individual participant and an aggregate limit equal to \$1,000,000. Estimates of claims payable and of claims incurred, but not reported at August 31, 2016, 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.

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

	<b><u>Year Ended August 31, 2016</u></b>
Unpaid claims, beginning of the year	\$ 2,475,390
Incurred claims/changes in estimates (including IBNR'S)	17,093,336
Claim Payments	<u>(17,666,583)</u>
Unpaid claims, end of fiscal year	<u>\$ 1,902,143</u>

**I. CHANGES IN NONCURRENT LIABILITIES**

Long-term activity for the year ended August 31, 2016, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Governmental Activities:				
Bonds and Notes Payable	\$ 7,812,190	\$ 389,794	\$ -----	\$ 8,201,984
Compensated Absences	299,342	15,236	-----	314,578
<b>Total Noncurrent Liabilities Due Within One Year</b>	<b>\$ 8,111,532</b>	<b>\$ 405,030</b>	<b>\$ -----</b>	<b>\$ 8,516,562</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Governmental Activities:				
Bonds and Notes Payable	\$ 248,972,434	\$ 42,100,055	\$ (50,451,985)	\$ 240,620,504
Compensated Absences	3,377,278	5,434	-----	3,382,712
<b>Total Noncurrent Liabilities Due In More Than One Year</b>	<b>\$ 252,349,712</b>	<b>\$ 42,105,489</b>	<b>\$ ( 50,451,985)</b>	<b>\$ 244,003,216</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Governmental Activities:				
Bonds and Notes Payable	\$ 256,784,624	\$ 42,489,849	\$ (50,451,985)	\$ 248,822,488
Compensated Absences	3,676,620	20,670	-----	3,697,290
<b>Total Noncurrent Liabilities</b>	<b>\$ 260,461,244</b>	<b>\$ 42,510,519</b>	<b>\$ (50,451,985)</b>	<b>\$ 252,519,778</b>

**J. OPERATING LEASES**

The District leases copiers and other equipment under noncancelable 4 year operating leases. Total costs for such leases were \$312,101 for the year ended August 31, 2016. Effective September 1, 2013, the District entered into a new noncancelable 4-year operating lease. The future minimum lease payments for these leases are as follows:

Year Ending August 31,	
2017	\$ 274,089
	<hr/>
Total	\$ 274,089
	<hr/>

## K. UNEARNED REVENUE/DEFERRED REVENUE

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned (unearned revenues).

As of August 31, 2016 the various components of unearned revenue and deferred inflows of resources reported in the governmental funds were as follows:

	General Fund	Special Revenue Funds	Debt Service Funds	Total
Athletics	\$ 67,778	\$ -----	\$ -----	\$ 67,778
Project Graduation	2,300	-----	-----	2,300
Activity Funds Receipts	59,954	-----	-----	59,954
Advanced Placement	-----	62,250	-----	62,250
Read to Succeed	-----	1,050	-----	1,050
Education Foundation Grants	-----	35,878	-----	35,878
Meadows Foundation	-----	18,250	-----	18,250
All Well Project	-----	10,979	-----	10,979
Wellness Grant	-----	757	-----	757
Miscellaneous	4,540	-----	-----	4,540
<b>Total Unearned Revenue</b>	<b>\$ 134,572</b>	<b>\$ 129,164</b>	-----	<b>\$ 263,736</b>
Unavailable Revenue – Property Taxes	2,088,729	-----	201,080	2,289,809
<b>Total Deferred Inflows of Resources</b>	<b>\$ 2,088,729</b>	<b>\$ ----</b>	<b>\$ 201,080</b>	<b>\$ 2,289,809</b>

## L. RECEIVABLES FROM OTHER GOVERNMENTS

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

Description	Amount
General Fund	\$2,594,573
Food Service	312,461
Summer Feeding Program	10,348
ESEA Title I, Part A – Improving Basic Program	133,003
IDEA-Part B, Formula	235,043
IDEA-Part B, Preschool	4,706
Carl Perkins - Basic Formula	32,314
ESEA Title II, Part A – Training & Recruiting	371,165
Title III, Part A - English Language Acquisition	38,038
Title III, Part A Migrant	275
Title I, School Improvement	166,884
State Textbook Fund	2,918,817
High Quality Pre-K	128,590
<b>Total</b>	<b>\$6,946,217</b>

## M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 204,769,308	\$ -	\$19,674,954	\$ -	\$224,444,262
Penalties, Interest and Other Tax-related Inc.	1,554,925	-	-	-	1,554,925
Investment Income	272,500	28,901	27,794	47,357	376,552
Food Sales	-	3,364,260	-	-	3,364,260
Co-Curricular/Extra-curricular Student Act.	401,452	-	-	-	401,452
Gifts and Bequests	1,087,356	109,167	-	-	1,196,523
Other	1,268,674	98,420	-	-	1,367,094
Total	\$ 209,354,215	\$3,600,748	\$19,702,748	\$47,357	\$232,705,068

## N. CONTINGENT LIABILITIES

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

In the opinion of management, the District has materially complied with all requirements. However, since such programs are subject to future audit or review, the possibility of disallowed expenditures exists. In the event of such disallowance of claimed expenditures, the District does not expect the resulting liability to have a material adverse effect on its basic financial statements at August 31, 2016.

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

## O. CONSTRUCTION COMMITMENTS

The District passed a \$163,110,000 bond authorization on November 6, 2012. The authorization included equipment, building renovations, new elementary construction and land purchases. Contracts for the renovations and new construction will be completed in 2016. As of August 31, 2016, \$33,219,491 was invested in construction in progress.

**P. MAINTENANCE OF EFFORT**

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

a) Total District Premium paid for health care 2015-16	\$11,741,390
b) Subtract any non-medical expenditures Life Insurance	(29,884)
c) 2015-16 Maintenance of Effort	\$11,711,506

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

**Q. EMPLOYEE DEFINED CONTRIBUTION PLAN**

The District participates in a matching annuity plan for the benefit of its employees. The District matches the employees’ contributions to the maximum of 3.0%. The percentage contributed by the District is determined annually by the Board of Trustees. Participants begin to vest in benefits after 3 years and become fully vested after 5 years. Participants are 100% vested in their personal contributions at all times. At August 31, 2016, 1,182 employees participated in the plan and the District contributed \$1,666,267.

**R. WORKER’S COMPENSATION**

GASB 10 requires that state and local governmental entities other than public entity risk pools are required to report an estimated loss from a claim as an expenditure/expense and as a liability if both of these conditions are met:

- a) Information available before the financial statements are issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will also occur, confirming the fact of the loss.
- b) The amount of the loss can be reasonably estimated.

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

At August 31, 2016, the accrued liabilities for worker’s compensation self-insurance of \$1,568,180 includes estimated incurred but not reported claims, and is included in accrued expense liability.

Year	Beginning of Fiscal Year Liability	Current Year claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year end
2015	\$ 2,046,837	\$ 41,387	(\$ 514,537 )	\$1,573,687
2016	\$ 1,573,687	\$ 609,023	(\$ 614,530 )	\$1,568,180

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

## S. SUBSEQUENT EVENTS

On October 19, 2016 Midland Independent School District issued \$26,000,000 of Unlimited Tax Refunding Bonds, Series 2016.

## T. NEW PRONOUNCEMENTS

In June 2015, GASB issued statement number 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68, and amendments to certain provisions of GASB 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB 68. It also amends certain provisions of GASB 67 and GASB 68 for pension plans and pensions that are within their respective scopes. This statement is effective for financial statements for reporting periods beginning after June 15, 2016.

In June 2015, GASB 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* was issued. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for financial statements for reporting periods beginning after June 15, 2016.

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

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of GAAP. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for financial statements for reporting periods beginning after June 15, 2016.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement requires governments that enter into tax abatement agreements to disclose:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
2. The gross dollar amount of taxes abated during the period
3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This statement is effective reporting periods beginning after December 15, 2015.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. Statement 78 was issued in December 2015. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are

effective for reporting periods beginning after December 15, 2015.

In January 2016, GASB issued Statement No. 80: *Blending Requirements for Certain Component Units – on amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

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

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

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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MIDLAND INDEPENDENT SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 208,238,396	\$ 210,781,012	\$ 209,354,215	\$ (1,426,797)
5800	State Program Revenues	11,009,471	13,835,275	14,057,359	222,084
5900	Federal Program Revenues	2,400,000	2,662,794	4,062,794	1,400,000
5020	Total Revenues	221,647,867	227,279,081	227,474,368	195,287
<b>EXPENDITURES:</b>					
<b>Current:</b>					
0011	Instruction	108,820,057	115,172,751	114,359,654	813,097
0012	Instructional Resources and Media Services	2,520,360	2,584,192	2,500,650	83,542
0013	Curriculum and Instructional Staff Development	6,324,513	6,564,647	5,314,804	1,249,843
0021	Instructional Leadership	3,037,464	3,292,648	3,182,536	110,112
0023	School Leadership	11,959,210	12,420,655	12,250,137	170,518
0031	Guidance, Counseling and Evaluation Services	6,139,639	6,493,126	6,341,031	152,095
0032	Social Work Services	254,555	339,602	324,789	14,813
0033	Health Services	2,308,631	2,259,665	2,192,420	67,245
0034	Student (Pupil) Transportation	7,364,570	7,594,254	6,875,747	718,507
0036	Extracurricular Activities	4,171,607	4,229,599	4,061,485	168,114
0041	General Administration	6,059,861	6,512,136	6,340,421	171,715
0051	Facilities Maintenance and Operations	17,042,008	22,374,505	21,106,908	1,267,597
0052	Security and Monitoring Services	1,478,922	1,688,620	1,609,427	79,193
0053	Data Processing Services	4,663,639	5,328,795	5,144,892	183,903
0061	Community Services	293,187	389,087	356,036	33,051
<b>Intergovernmental:</b>					
0091	Contracted Instructional Services Between Schools	54,209,566	54,209,566	47,592,168	6,617,398
0093	Payments to Fiscal Agent/Member Districts of SSA	130,000	130,000	35,353	94,647
6030	Total Expenditures	236,777,789	251,583,848	239,588,458	11,995,390
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(15,129,922)	(24,304,767)	(12,114,090)	12,190,677
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers In	-	-	2,826,371	2,826,371
1200	Net Change in Fund Balances	(15,129,922)	(24,304,767)	(9,287,719)	15,017,048
0100	Fund Balance - September 1 (Beginning)	51,193,404	51,193,404	51,193,404	-
3000	Fund Balance - August 31 (Ending)	\$ 36,063,482	\$ 26,888,637	\$ 41,905,685	\$ 15,017,048

MIDLAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.1589302%	0.1106357%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 56,179,170	\$ 29,553,326
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	78,651,973	64,819,676
Total	<u>\$ 134,831,143</u>	<u>\$ 94,373,002</u>
District's Covered-Employee Payroll	\$ 142,659,151	\$ 141,859,865
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	39.38%	21.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.36%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

MIDLAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-7

	2016	2015
Contractually Required Contribution	\$ 9,486,833	\$ 9,433,681
Contribution in Relation to the Contractually Required Contribution	9,486,833	9,433,681
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 142,659,151	\$ 141,859,865
Contributions as a Percentage of Covered-Employee Payroll	6.65%	6.65%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

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**OTHER SUPPLEMENTARY INFORMATION**

MIDLAND INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2016

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	242 Summer Feeding Program	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ 36,480	\$ 146	\$ 73,842
1240	Receivables from Other Governments	133,003	235,043	4,706	10,348
1260	Due from Other Funds	-	-	-	-
1000	Total Assets	<u>\$ 133,003</u>	<u>\$ 271,523</u>	<u>\$ 4,852</u>	<u>\$ 84,190</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 13,870	\$ 3,497	\$ 3,510	\$ -
2160	Accrued Wages Payable	86,639	221,251	1,196	2,018
2170	Due to Other Funds	32,494	46,775	146	-
2300	Unearned Revenues	-	-	-	-
2000	Total Liabilities	<u>133,003</u>	<u>271,523</u>	<u>4,852</u>	<u>2,018</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	82,172
3490	Other Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,172</u>
4000	Total Liabilities and Fund Balances	<u>\$ 133,003</u>	<u>\$ 271,523</u>	<u>\$ 4,852</u>	<u>\$ 84,190</u>

244 Carl Perkins Basic Formula	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang Acquisition	287 Title III, Part A ELA	288 Title III Part A Migrant	289 Summer School LEP	296 Title I Priority & Focus	396 Advanced Placement Testing
\$ 6,422	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,696	\$ 41,687
32,314	371,165	38,038	-	275	-	166,884	-
-	-	-	-	-	-	-	20,563
<u>\$ 38,736</u>	<u>\$ 371,165</u>	<u>\$ 38,038</u>	<u>\$ -</u>	<u>\$ 275</u>	<u>\$ -</u>	<u>\$ 194,580</u>	<u>\$ 62,250</u>
\$ 10,620	\$ 239,461	\$ 8,974	\$ -	\$ -	\$ -	\$ 63,248	\$ -
6,389	22,847	-	-	-	-	11,146	-
21,727	108,857	29,064	-	275	-	120,186	-
-	-	-	-	-	-	-	62,250
<u>38,736</u>	<u>371,165</u>	<u>38,038</u>	<u>-</u>	<u>275</u>	<u>-</u>	<u>194,580</u>	<u>62,250</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 38,736</u>	<u>\$ 371,165</u>	<u>\$ 38,038</u>	<u>\$ -</u>	<u>\$ 275</u>	<u>\$ -</u>	<u>\$ 194,580</u>	<u>\$ 62,250</u>

MIDLAND INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2016

Data Control Codes	405 ESC Gifted and Talented	410 State Textbook Fund	427 Read To Succeed	429 High Quality Pre-K	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ 212,419	\$ 1,050	\$ 1,061
1240	Receivables from Other Governments	-	2,918,817	-	128,590
1260	Due from Other Funds	18,250	-	-	-
1000	<b>Total Assets</b>	<u>\$ 18,250</u>	<u>\$ 3,131,236</u>	<u>\$ 1,050</u>	<u>\$ 129,651</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ -	\$ 48,851	\$ -	\$ 11,860
2160	Accrued Wages Payable	-	-	-	-
2170	Due to Other Funds	-	3,082,385	-	117,791
2300	Unearned Revenues	18,250	-	1,050	-
2000	<b>Total Liabilities</b>	<u>18,250</u>	<u>3,131,236</u>	<u>1,050</u>	<u>129,651</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3490	Other Restricted Fund Balance	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 18,250</u>	<u>\$ 3,131,236</u>	<u>\$ 1,050</u>	<u>\$ 129,651</u>

499 Other Local Special Revenue Funds	Total Nonmajor Special Revenue Funds	601 West Renovation Project	602 Technology	Total Nonmajor Governmental Funds
\$ 54,416	\$ 455,219	\$ -	\$ -	\$ 455,219
-	4,039,183	-	-	4,039,183
-	38,813	-	-	38,813
<u>\$ 54,416</u>	<u>\$ 4,533,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,533,215</u>
\$ -	\$ 403,891	\$ -	\$ -	\$ 403,891
2,333	353,819	-	-	353,819
-	3,559,700	-	-	3,559,700
47,614	129,164	-	-	129,164
<u>49,947</u>	<u>4,446,574</u>	<u>-</u>	<u>-</u>	<u>4,446,574</u>
-	82,172	-	-	82,172
4,469	4,469	-	-	4,469
<u>4,469</u>	<u>86,641</u>	<u>-</u>	<u>-</u>	<u>86,641</u>
<u>\$ 54,416</u>	<u>\$ 4,533,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,533,215</u>

MIDLAND INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	242 Summer Feeding Program
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	<u>3,476,691</u>	<u>3,288,534</u>	<u>30,533</u>	<u>85,749</u>
5020 Total Revenues	<u>3,476,691</u>	<u>3,288,534</u>	<u>30,533</u>	<u>85,749</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	2,260,208	1,610,123	30,533	-
0012 Instructional Resources and Media Services	20,370	-	-	-
0013 Curriculum and Instructional Staff Development	844,909	23,435	-	-
0021 Instructional Leadership	176,278	95,698	-	-
0023 School Leadership	91,876	-	-	-
0031 Guidance, Counseling and Evaluation Services	24,717	1,447,816	-	-
0034 Student (Pupil) Transportation	-	111,462	-	-
0035 Food Services	-	-	-	61,560
0041 General Administration	-	-	-	-
0061 Community Services	58,333	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	<u>3,476,691</u>	<u>3,288,534</u>	<u>30,533</u>	<u>61,560</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	24,189
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out (Use)	-	-	-	(800,000)
1200 Net Change in Fund Balance	-	-	-	(775,811)
0100 Fund Balance - September 1 (Beginning)	-	-	-	<u>857,983</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,172</u>

244 Carl Perkins Basic Formula	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	287 Title III, Part A ELA	288 Title III Part A Migrant	289 Summer School LEP	296 Title I Priority & Focus	396 Advanced Placement Testing
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	4,738
<u>257,051</u>	<u>673,427</u>	<u>359,328</u>	<u>14,528</u>	<u>22,588</u>	<u>7,791</u>	<u>1,110,794</u>	<u>-</u>
<u>257,051</u>	<u>673,427</u>	<u>359,328</u>	<u>14,528</u>	<u>22,588</u>	<u>7,791</u>	<u>1,110,794</u>	<u>4,738</u>
180,066	13,298	283,432	14,528	19,239	7,791	878,727	-
-	-	1,370	-	-	-	12,955	-
-	211,510	55,017	-	2,177	-	184,614	4,738
311	263,981	7,633	-	1,172	-	(9)	-
-	170,139	4,187	-	-	-	23,451	-
76,674	-	(3,485)	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	14,499	-	-	-	-	-	-
-	-	11,174	-	-	-	11,056	-
-	-	-	-	-	-	-	-
<u>257,051</u>	<u>673,427</u>	<u>359,328</u>	<u>14,528</u>	<u>22,588</u>	<u>7,791</u>	<u>1,110,794</u>	<u>4,738</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MIDLAND INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	405 ESC Gifted and Talented	410 State Textbook Fund	427 Read To Succeed	429 High Quality Pre-K
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 41,250	\$ -	\$ -	\$ -
5800 State Program Revenues	-	4,588,984	52	128,590
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>41,250</u>	<u>4,588,984</u>	<u>52</u>	<u>128,590</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	41,250	3,838,526	-	121,064
0012 Instructional Resources and Media Services	-	-	52	-
0013 Curriculum and Instructional Staff Development	-	750,458	-	4,070
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0041 General Administration	-	-	-	-
0061 Community Services	-	-	-	3,456
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	<u>41,250</u>	<u>4,588,984</u>	<u>52</u>	<u>128,590</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out (Use)	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

499 Other Local Special Revenue Funds	Total Nonmajor Special Revenue Funds	601 West Renovation Project	602 Technology	Total Nonmajor Governmental Funds
\$ 161,743	\$ 202,993	\$ -	\$ -	\$ 202,993
-	4,722,364	-	-	4,722,364
-	9,327,014	-	-	9,327,014
<u>161,743</u>	<u>14,252,371</u>	<u>-</u>	<u>-</u>	<u>14,252,371</u>
68,687	9,367,472	-	-	9,367,472
-	34,747	-	-	34,747
20,408	2,101,336	-	-	2,101,336
-	545,064	-	-	545,064
-	289,653	-	-	289,653
3,144	1,548,866	-	-	1,548,866
-	111,462	-	-	111,462
51,023	112,583	-	-	112,583
38,889	53,388	-	-	53,388
-	84,019	-	-	84,019
-	-	-	166,010	166,010
<u>182,151</u>	<u>14,248,590</u>	<u>-</u>	<u>166,010</u>	<u>14,414,600</u>
(20,408)	3,781	-	(166,010)	(162,229)
-	(800,000)	-	(1,525,007)	(2,325,007)
(20,408)	(796,219)	-	(1,691,017)	(2,487,236)
<u>24,877</u>	<u>882,860</u>	<u>-</u>	<u>1,691,017</u>	<u>2,573,877</u>
<u>\$ 4,469</u>	<u>\$ 86,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,641</u>

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MIDLAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET ASSETS AND LIABILITIES  
AGENCY FUND  
FOR YEAR ENDED AUGUST 31, 2016

Data Control Codes		Beginning Balance	Additions	Deletions	Ending Balance
STUDENT ACTIVITY FUNDS					
1110	Cash and Cash Equivalents	\$ 957,955	\$ 1,219,409	\$ 1,245,080	\$ 932,284
1000	Total Assets	<u>\$ 957,955</u>	<u>\$ 1,219,409</u>	<u>\$ 1,245,080</u>	<u>\$ 932,284</u>
2110	Accounts Payable	\$ 3,359	\$ 7,275	\$ 7,433	\$ 3,201
2420	Due to Student Groups	954,596	1,212,134	1,237,647	929,083
2000	Total Liabilities	<u>\$ 957,955</u>	<u>\$ 1,219,409</u>	<u>\$ 1,245,080</u>	<u>\$ 932,284</u>

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**REQUIRED TEA SCHEDULES**

MIDLAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	\$ 1.330000	\$ 0.168000	\$ 6,804,612,913
2008	1.000050	0.125000	8,011,274,681
2009	1.040050	0.112500	9,622,129,854
2010	1.040050	0.105000	10,221,439,879
2011	1.040050	0.101000	10,879,019,756
2012	1.040050	0.100000	11,235,065,718
2013	1.040050	0.090000	14,698,146,126
2014	1.040050	0.100000	14,782,675,318
2015	1.040050	0.100000	19,292,108,478
2016 (School year under audit)	1.040050	0.100000	20,127,433,487
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 226,239	\$ -	\$ 11,292	\$ 1,426	\$ (63,714)	\$ 149,808
67,003	-	3,325	416	(323)	62,939
77,599	-	4,804	520	(2,362)	69,913
76,154	-	7,201	727	(2,640)	65,586
96,784	-	18,053	1,753	105	77,083
117,533	-	27,629	2,656	8,619	95,867
325,128	-	44,136	3,817	3,790	280,965
650,521	-	(2,388)	(230)	(226,173)	426,967
2,447,755	-	1,317,267	126,630	(203,471)	800,387
-	224,226,017	201,783,065	19,397,539	259,355	3,304,768
<u>\$ 4,084,716</u>	<u>\$ 224,226,017</u>	<u>\$ 203,214,383</u>	<u>\$ 19,535,253</u>	<u>\$ (226,814)</u>	<u>\$ 5,334,284</u>

MIDLAND INDEPENDENT SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 3,532,204	\$ 3,294,227	\$ 3,397,755	\$ 103,528
5800 State Program Revenues	58,817	57,816	57,816	-
5900 Federal Program Revenues	7,885,551	8,755,160	6,937,076	(1,818,084)
5020 Total Revenues	<u>11,476,572</u>	<u>12,107,203</u>	<u>10,392,647</u>	<u>(1,714,556)</u>
<b>EXPENDITURES:</b>				
0035 Food Services	<u>11,476,572</u>	<u>13,076,572</u>	<u>12,553,923</u>	<u>522,649</u>
6030 Total Expenditures	<u>11,476,572</u>	<u>13,076,572</u>	<u>12,553,923</u>	<u>522,649</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(969,369)	(2,161,276)	(1,191,907)
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	-	800,000	800,000
1200 Net Change in Fund Balances	-	(969,369)	(1,361,276)	(391,907)
0100 Fund Balance - September 1 (Beginning)	<u>2,903,027</u>	<u>2,903,027</u>	<u>2,903,027</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,903,027</u>	<u>\$ 1,933,658</u>	<u>\$ 1,541,751</u>	<u>\$ (391,907)</u>

MIDLAND INDEPENDENT SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGET AND ACTUAL - DEBT SERVICE FUND  
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 20,099,246	\$ 19,678,875	\$ 19,702,748	\$ 23,873
5800	State Program Revenues	-	200,000	236,094	36,094
5020	Total Revenues	20,099,246	19,878,875	19,938,842	59,967
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Principal on Long Term Debt	7,550,000	7,550,000	7,550,000	-
0072	Interest on Long Term Debt	11,684,809	12,184,809	9,979,032	2,205,777
0073	Bond Issuance Cost and Fees	481,670	481,670	2,977,169	(2,495,499)
6030	Total Expenditures	19,716,479	20,216,479	20,506,201	(289,722)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	382,767	(337,604)	(567,359)	(229,755)
<b>OTHER FINANCING SOURCES (USES):</b>					
7911	Capital Related Debt Issued-Refunding	-	-	38,495,000	38,495,000
7916	Premium or Discount on Issuance of Bonds	-	-	3,519,627	3,519,627
8949	Other (Uses) - Refunding	-	-	(41,538,611)	(41,538,611)
7080	Total Other Financing Sources (Uses)	-	-	476,016	476,016
1200	Net Change in Fund Balances	382,767	(337,604)	(91,343)	246,261
0100	Fund Balance - September 1 (Beginning)	4,282,175	4,282,175	4,282,175	-
3000	Fund Balance - August 31 (Ending)	\$ 4,664,942	\$ 3,944,571	\$ 4,190,832	\$ 246,261

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**FEDERAL AWARDS SECTION**

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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 Superintendent and the Board of Trustees  
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 year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 28, 2017.

***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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Superintendent and the Board of Trustees  
Midland Independent School District

### ***Compliance and Other Matters***

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

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

WEAVER AND TIDWELL, L.L.P.

Midland, Texas  
January 28, 2017



REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH THE UNIFORM GUIDANCE

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

**Report on Compliance for Major Federal Program**

We have audited Midland Independent School District's (the District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended August 31, 2016. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on 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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2016.

To the Superintendent and the Board of Trustees  
Midland Independent School District

## Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for 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 combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

WEAVER AND TIDWELL, L.L.P.

Midland, Texas  
January 28, 2017

**MIDLAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED AUGUST 31, 2016**

***I. SUMMARY OF AUDITORS' RESULTS***

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- ◆ Material weakness (es) identified?        Yes   X   No
- ◆ Significant deficiency (es) identified that are not considered to be material weaknesses?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

*Federal Awards*

Internal control over major programs:

- ◆ Material weakness (es) identified?        Yes   X   No
- ◆ Significant deficiency (ies) identified that are not considered to be material weakness (es)?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Unmodified

- ◆ Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?        Yes   X   No

Identification of Major Programs:  
CFDA Number(s) Name of Federal Program or Cluster

84.010 ESEA, TITLE I

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?   X   Yes        No

**MIDLAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED AUGUST 31, 2016**

***II. FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS.***

None.

***III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS.***

None.

**MIDLAND INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED AUGUST 31, 2015**

***II. FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS.***

None.

***III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS.***

None.

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**MIDLAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2016**

PROGRAM OR CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed-Through Texas Education Agency</u>			
Title I, Part A - Improving Basic Programs	84.010A	16610101165901	3,555,310
Title I, 1003(A), Priority and Focus School Grant	84.010A	16610112165901000	1,120,311
<b>Total Title I Grants to Local Educational Agencies</b>			<u>4,675,621</u>
*Special Education - Grants to States (IDEA, Part B)	84.027A	166600011659016600	3,354,599
*Special Education - Preschool Grants (IDEA Preschool)	84.173A	166610011659016610	31,009
<b>Total Special Education Cluster (IDEA)</b>			<u>3,385,608</u>
Title III, Part A - LEP (Limited English Proficient Program)	84.365A	16671001165901	361,551
Title III, Part A - Immigrant	84.365A	16671003165901	22,858
Title III, Part A - ELA: Formula Grant for Unaccompanied Children & You	84.365B	156711037110037	14,528
<b>Total English Language Acquisition State Grants</b>			<u>398,937</u>
Career and Technical Education—Basic Grants to States (Perkins IV)	84.048A	16420006165901	257,051
Title II, Part A - Improving Teacher Quality State Grants	84.367A	16694501165901	685,332
Summer School - LEP	84.369A	69551502	7,791
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>9,410,340</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed-Through Texas Department of Agriculture</u>			
*School Breakfast Program (SBP)	10.553	71401601	2,710,507
*National School Lunch Program (NSLP)	10.555	71301601	5,010,868
*Summer Food Service Program for Children	10.559	3001601	85,749
<b>Total Child Nutrition Cluster</b>			<u>7,807,124</u>
*Commodity Supplemental Food Program	10.565	71301601	1,215,701
<b>Total Food Distribution Cluster</b>			<u>1,215,701</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>9,022,825</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed-Through Texas Health and Human Services</u>			
Medical Assistance Program (Medicaid; Title XIX)	93.778	529-07-0157-00087	42,852
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>42,852</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>18,476,017</u></u>

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**MIDLAND INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2016**

1. The District utilized the fund types specified in the Texas Education Agency’s Financial Accountability System Resource Guide.

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

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

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

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

3. Relationship to Financial Statements

Federal financial assistance revenues are reported in the District’s financial statements as follows:

Federal program revenues - General Fund	\$ 4,062,794
Federal program revenues – National School Breakfast/Lunch Fund	6,937,076
Federal program revenues – Other Special Revenue Funds	9,327,014
	20,326,884
School Health and Related Services (SHARS)	(1,728,295)
Air Force JROTC	(122,572)
	\$18,476,017

4. Relationship to Federal Financial Reports

Amounts reported in the accompanying exhibits agree with the amounts reported in the related federal financial reports.

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