

Midland College Financial Statements and Report of Independent Certified Public Accountants August 31, 2016



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Midland College is **YOUR** College!

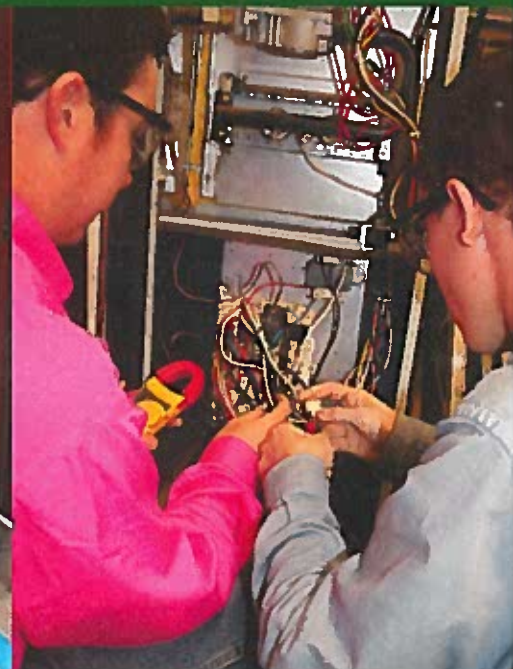


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MIDLAND COLLEGE DISTRICT

ORGANIZATIONAL DATA

As of August 31, 2016

BOARD OF TRUSTEES

Officers

Mr. Stephen N. Castle	President
Mr. G. Larry Lawrence	Vice-President
Ms. Linda Cowden	Secretary

Members

		Term Expires
Mr. Stephen N. Castle	Midland, Texas	2018
Ms. Linda Cowden	Midland, Texas	2022
Mr. Will R. Green	Midland, Texas	2020
Mr. Steven C. Kiser	Midland, Texas	2022
Mr. G. Larry Lawrence	Midland, Texas	2022
Ms. Charlene R. McBride	Midland, Texas	2018
Mr. Paul L. Morris	Midland, Texas	2018
Mr. Kenneth A. Peeler	Midland, Texas	2020
Mr. Ralph Way	Midland, Texas	2020

ADMINISTRATIVE OFFICERS

Dr. Steve Thomas	President
Dr. Richard C. Jolly	Executive Vice President
Mr. Rick Bender	Vice President of Administrative Services
Ms. Rita Nell Diffie	Vice President of Student Services
Mr. Dennis Sever	Vice President of Information Technology & Facilities
Dr. Deana Savage	Special Advisor to the President
Ms. Kathy Fletcher	Executive Director of Institutional Advancement
Ms. Lauren Callo	Director of Accounting



Independent Auditors' Report

The Board of Trustees
Midland College District
Midland, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Midland College District (the "District") as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of August 31, 2016 and 2015, and the respective changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 13 to the financial statements, in 2015, the District adopted new accounting guidance prescribed by GASB #68 for its pension plan - a multiple employer, cost-sharing, defined benefit pension plan that has a special funding situation. Because GASB #68 implements new measurement criteria and reporting provisions, significant information has been added to the financial statements. Note 13 and the Schedule of District's Proportionate Share of Net Pension Liability and Schedule of District's Contributions disclose the District's net pension liability and deferred outflows and inflows of resources related to the District's pension plan. Note 2 discloses the adjustment to the District's beginning net position. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and on pages 5-17 and the Schedule of District's Proportionate Share of Net Pension Liability and Schedule of District's Contributions on pages 49-51 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The organizational data and statistical supplement on page 1 and pages 66 through 74 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards, and is also not a required part of the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *Provisions of the State of Texas Single Audit Circular*, and is not a required part of the basic purpose financial statements. In addition, the supplementary data presented in schedules A, B, C and D is presented for additional purposes and is not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

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

The Organizational Data and Statistical Supplement have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report December 8, 2016, 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.

Johnson Miller & Co., CPA's PC

Midland, Texas
December 8, 2016

Overview of the Financial Statements and Financial Analysis

The Management's Discussion and Analysis is designed to provide an easy to read analysis of Midland College District's financial activities for the years ended August 31, 2016, 2015 and 2014. This overview is based on facts, decisions and conditions known as of the date of the independent auditor's report. There are three financial statements presented: the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows. These statements provide both long-term and short-term financial information on the District as a whole and should be read in conjunction with the notes to the basic financial statements.

Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the preparers.

Change in Accounting Principle

The District adopted GASB 68, *Accounting and Financial Reporting for Pensions – as amended by GASB 27*, in 2015. The adoption of this standard has resulted in dramatic changes in the presentation of the District's Statement of Net Position.

Financial and Enrollment Highlights

- The District's total net position was \$92.1 million and \$89.3 million for the fiscal years ended August 31, 2016 and 2015, respectively.
- The District's financial standing was strengthened as total net position increased by approximately \$2.8 million during fiscal year 2016 and by approximately \$4.4 million during fiscal year 2015. Of these amounts, unrestricted net position increased by approximately \$3.2 million and \$584 thousand for fiscal years 2016 and 2015, respectively.
- The net assessed valuation of the tax district increased by approximately \$1.0 billion or 5%, from 2015 to 2016 and by \$2.5 billion or 13.7% from 2014 to 2015. Taxable values were approximately \$21.4 billion in 2016 and \$20.3 billion in 2015.
- Bonded indebtedness decreased by approximately \$1.1 million in fiscal year 2016 and by approximately \$3.3 million during fiscal year 2015.
- A portion of the District's 2008 Revenue Bonds were refunded resulting in a net present value savings of approximately \$697 thousand. The average coupon rate on the refunded bonds was reduced from 4.94% to 2.25%.
- During fiscal year 2016 the unduplicated head count of credit students increased by 671, duplicated head count of credit students increased by 1,555, and total contact hours increased by approximately 161,000.

Financial and Enrollment Highlights (Continued)

- During fiscal year 2015 the unduplicated head count of credit students decreased by 10, duplicated head count of credit students increased by 58, and total contact hours decreased by approximately 229,000.

The Statements of Net Position

The Statements of Net Position includes all assets, deferred outflow of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector organizations. Net position - the difference between assets and deferred outflow of resources, less liabilities and deferred inflows of resources – is one way to measure the financial health of the District. The purpose of the Statements of Net Position is to present a fiscal snapshot of the District.

From the data presented, readers of the Statements of Net Position are able to determine the resources that are available to continue the operations of the institution. Readers are also able to determine the amount the institution owes vendors, bondholders and lending institutions. Finally, the Statements of Net Position provides a picture of the net position and its availability for expenditure by the institution.

Condensed Statements of Net Position					
(in thousands)					
	Fiscal Year			Increase/(Decrease)	
	2016	2015	2014	2015 to 2016	2014 to 2015
Assets					
Current Assets	\$ 30,666	30,315	23,261	351	7,054
Non-current Assets	13,122	11,278	17,491	1,844	(6,213)
Capital Assets - (Non-current)	100,194	102,416	102,082	(2,222)	334
Total Assets	\$ 143,982	144,009	142,834	(27)	1,175
Deferred Outflows of Resources	\$ 5,278	2,901	2,003	2,377	898
Liabilities:					
Current Liabilities	\$ 10,963	11,005	12,425	(42)	(1,420)
Non-current Liabilities	43,601	44,617	40,243	(1,016)	4,374
Total Liabilities	\$ 54,564	55,622	52,668	(1,058)	2,954
Deferred Infows of Resources	\$ 2,608	1,961	-	647	1,961
Net Position:					
Invested in capital assets, net of related debt	\$ 64,293	64,808	61,459	(515)	3,349
Restricted-Nonexpendable	5,296	5,307	5,346	(11)	(39)
Restricted-Expendable	5,297	5,195	4,667	102	528
Unrestricted	17,202	14,017	20,697	3,185	(6,680)
Total Net Position	\$ 92,088	89,327	92,169	2,761	(2,842)
Current Ratio	2.80	2.75	1.87		

The Statements of Net Position (Continued)

Net position is divided into three major categories. The first category, net investment in capital assets, reflects the institution's equity in property, plant and equipment. The next category, restricted net position, is divided into nonexpendable and expendable. The corpus, or nonexpendable restricted resources, is only available for investment purposes. Expendable restricted net position is available for expenditure by the institution, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the funds. The final category is unrestricted net position, which is available to the institution for any lawful purpose. As of August 31, 2016, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows by approximately \$92.1 million. Of this amount, approximately \$17.2 million is unrestricted and may be used to meet ongoing obligations.

As a result of the adoption of Governmental Accounting Standards Statement Number 68 ("GASB 68") in 2015, the District has recognized its proportionate share of the deferred outflows, deferred inflows and net pension liability related to its participation in the Texas Teacher's Retirement System. As of August 31, 2016 the District has recognized a net pension liability of approximately \$7.6 million compared to \$6.4 million in 2015. Additionally, deferred outflows of resources related to pension plans was approximately \$3 million as of August 31, 2016 and \$1.2 million as of August 31, 2015. As of August 31, 2016 and 2015, the district reflected approximately \$2.6 million and \$2.0 million, respectively, in deferred inflow of resources related to pension plans.

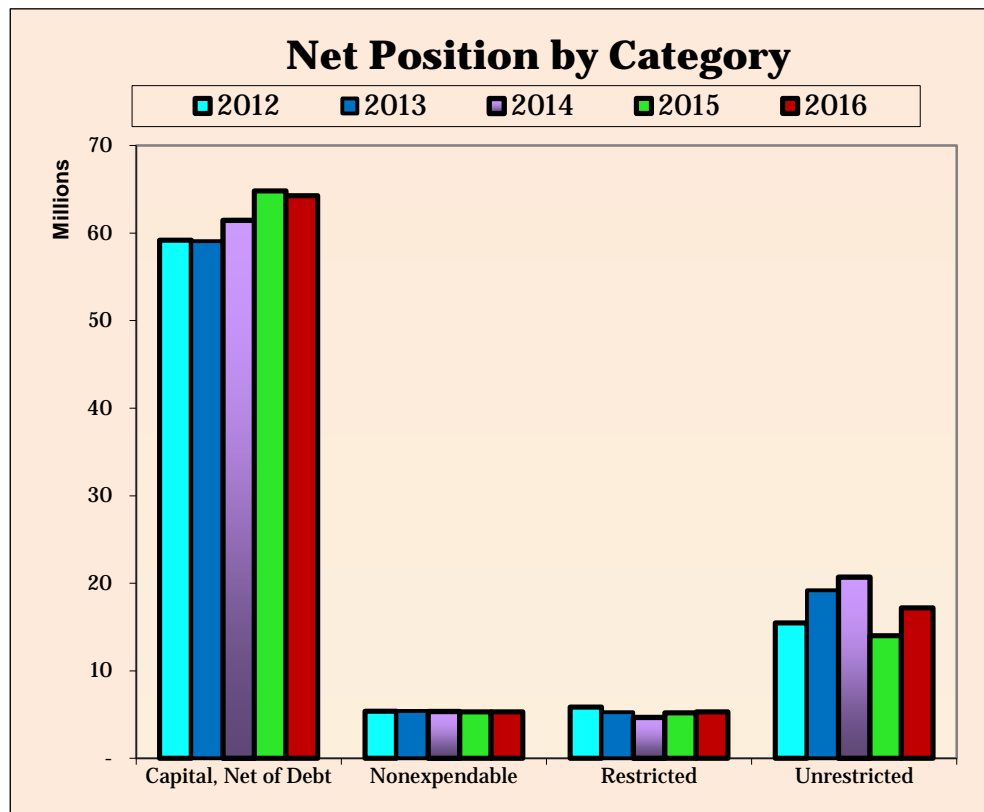
Deferred outflows on the pensions plan are related to changes in actuarial assumptions that occur at the plan level, differences in expected and actual economic experience at the plan level, contributions made to the Teacher Retirement System (TRS) after the measurement date, and the difference between the employer's contributions and their proportionate share of contributions. Deferred inflows for the pension plan are related to the difference between projected and actual investment earnings and the difference between the employer's contributions and their proportionate share of contributions. The net pension liability of \$7.6 million was measured at August 31, 2015 and was established per amounts recorded in TRS' Comprehensive Annual Financial Statement and TRS' Audited 2015 GASB 68 Allocation Schedules. Information regarding the recording of deferred outflows related to pensions, deferred inflows related to pensions, and the net pension liability can be found in Note 12 in the accompanying Notes to the Financial Statements.

In 2016 total assets decreased by \$27 thousand, deferred outflows of resources increased by approximately \$2.4 million while total liabilities decreased by approximately \$1.1 million and deferred inflows of resources increased by approximately \$647 thousand. As discussed above the changes in the deferred outflow and deferred inflow of resources is the result of the District's recognition of actuarial changes and other changes related to the pension plan. In addition, deferred outflows of resources was also impacted by the District's recognition of the deferred savings related to the refunding of its 2008 Revenue Building bonds. The decrease in liabilities is primarily the result of normally scheduled debt service payments made on long-term debt.

In 2015 total assets increased by approximately \$1.2 million while total liabilities increased by approximately \$3.0 million. The increase in liabilities includes the accounting change recognizing a net pension liability of \$6.4 million. Without this accounting change, liabilities would have decreased by approximately 3.5 million, which is principally related to approximately \$3 million of scheduled debt services payments.

The Statements of Net Position (Continued)

The following chart illustrates the comparative changes in net position by category over the past five years. The District’s financial position is strong and stable as reflected in the chart. Unrestricted net position is critical to support the District’s overall mission, therefore it is important that unrestricted net position be adequately maintained. The chart below illustrates that unrestricted net position has grown in a consistent manner and that the District has not been required to use these resources to fund operations. The growth in Invested in Capital, net of debt, reflects the substantial investments the District has made in its physical plant. Restricted net position represents balances of funds that have been received to fund specific projects. Accordingly, these balances increase and decrease as funds are received and subsequently disbursed. The adoption of GASB 68 in 2015 resulted in a restatement of the beginning unrestricted net position. This cumulative effect adjustment resulted in unrestricted net position being reduced by approximately \$7.3 million. Without the change related to this accounting change, the unrestricted net position would have increased by approximately \$584 thousand. In 2016, the unrestricted net position increased by approximately \$3.2 million.



Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position present the operating results of the District, as well as the non-operating revenues and expenses. Generally, operating revenues are those revenues received in exchange for the District providing goods and services. Operating expenses are those amounts paid to acquire or produce the goods and services in return for the operating revenues. Non-operating revenues are funds received with no direct relationship to the goods and services being provided. Accordingly, state appropriations and ad valorem taxes, while budgeted for operations, are classified as non-operating revenue for financial reporting purposes.

Total revenues and total expenses should be considered in assessing the change in the District's financial position. When total revenues exceed total expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. Further detail is presented in the Statements of Revenues, Expenses and Changes in Net Position and notes to the financial statements.

The following table reflects a summary of the Statements of Revenues, Expenses and Changes in Net Position for the years ended August 31, 2016, 2015 and 2014. This summary indicates the operating loss and the overall increase in net position for each of the years displayed.

Condensed Schedule of Revenues, Expenses and Changes in Net Position					
(in thousands)					
	Fiscal Year			Changes	
	2016	2015	2014	2015 to 2016	2014 to 2015
Operating revenues and expenses:					
Operating revenues (see detail below)	\$ 16,649	16,386	17,406	263	(1,020)
Operating expenses	57,222	53,868	53,100	3,354	768
Operating loss	(40,573)	(37,482)	(35,694)	(3,091)	(1,788)
Non-operating revenues (expenses):					
State appropriations	10,709	11,221	11,106	(512)	115
Ad valorem taxes	27,458	25,454	23,785	2,004	1,669
Federal, non-operating	4,790	4,290	4,017	500	273
Gifts	1,744	2,297	1,491	(553)	806
Interest on capital related debt	(1,521)	(1,527)	(1,641)	6	114
Other non-operating revenues	154	167	145	(13)	22
Total non-operating revenues, net	43,334	41,902	38,903	1,432	2,999
Increase in net position	2,761	4,420	3,209	(1,659)	1,211
Net position - beginning of year	89,326	92,170	88,961	(2,844)	3,209
Cumulative effect of accounting change	-	(7,264)	-	7,264	(7,264)
Net position - beginning of year (restated)	89,326	84,906	88,961	4,420	(4,055)
Net position - end of year	\$ 92,087	89,326	92,170	2,761	(2,844)

Revenues

As shown in the schedule below, total revenues increased from 2015 to 2016 and from 2014 to 2015. Both operating and non-operating revenues reflect increases in 2016.

	Revenue (In thousands)					
	2016		2015		2014	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Operating Revenue						
Net Tuition and Fees	\$ 9,417	15.3%	9,232	15.4%	9,778	16.9%
Grants and Contracts	4,669	7.6%	4,627	7.7%	5,206	9.0%
Auxiliary Enterprises	1,049	1.7%	1,153	1.9%	1,180	2.0%
	<u>1,514</u>	<u>2.5%</u>	<u>1,375</u>	<u>2.3%</u>	<u>1,242</u>	<u>2.1%</u>
	16,649	27.1%	16,387	27.4%	17,406	30.0%
Non-Operating Revenue						
State Allocations	10,709	17.4%	11,221	18.8%	11,106	19.2%
Ad Valorem Taxes	27,458	44.5%	25,454	42.6%	23,786	41.0%
Gifts Grants & Contracts	6,568	10.7%	6,593	11.0%	5,546	9.6%
Other	185	0.3%	165	0.3%	105	0.2%
	<u>44,920</u>	<u>72.9%</u>	<u>43,433</u>	<u>72.6%</u>	<u>40,543</u>	<u>70.0%</u>
Total Revenue	61,569	100%	59,820	100%	57,949	100%

The following table illustrates the changes in tuition and fee revenue over the past three years. While in-district students represent the largest number of students, out-of-district tuition revenue represents a higher percentage of revenue due to the higher tuition rate charged to out-of-district students.

	Tuition and Fees (In thousands)					
	2016		2015		2014	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
In-district tuition	\$ 3,861	26.1%	3,368	24.4%	3,471	25.0%
Out-of-district tuition	4,165	28.1%	3,805	27.6%	3,855	27.7%
Non-resident tuition	753	5.1%	825	6.0%	751	5.4%
TPEG set aside-credit programs	393	2.7%	326	2.4%	362	2.6%
Total tuition-credit programs	<u>9,172</u>	<u>62.0%</u>	<u>8,324</u>	<u>60.4%</u>	<u>8,439</u>	<u>60.7%</u>
Mandatory fees	2,997	20.2%	2,560	18.6%	2,242	16.1%
Other fees	1,366	9.2%	1,217	8.8%	1,233	8.9%
Total credit programs tuition and fees	4,363	29.4%	12,101	87.8%	11,914	85.7%
Continuing Education and Workforce Training	1,216	8.2%	1,604	11.6%	1,894	13.6%
TPEG set aside non-credit programs	57	0.4%	76	0.6%	93	0.7%
Gross tuition and fees	\$14,808	100.0%	13,781	100.0%	13,901	100.0%

Revenues (Continued)

Major changes in operating and non-operating revenue are as follows:

2015 to 2016 Changes

Total revenues increased by approximately \$1.7 million in 2016. Of this amount operating revenues increased by approximately \$262 thousand and non-operating revenues increased by approximately \$1.5 million. Net tuition and fees increased by approximately \$186,000.

The increase in tuition and fees for 2016 is the result of enrollment increases and increases in tuition and fee rates. Contact hours increased from the prior year by approximately 7%. Tuition rates for in-district students increased by approximately 5.1% from the prior year and the rates for most out-of-district and non-resident students increased by approximately 5.6% and 4.9% respectively.

Total ad valorem taxes were approximately \$27.5 million or 7.9% higher in 2016 as compared to 2015. The increase in tax revenue recognized is the result of an approximate \$1 billion, or 5% increase in the net assessed valuation of the district. The total tax rate for the district was \$0.1259 per \$100 of valuation. This represented an increase of approximately 1.2% from the prior year.

2014 to 2015 Changes

Total revenues increased by approximately \$1.9 million in 2015 compared to the prior year. Of this amount, operating revenues decreased by approximately \$1 million while non-operating revenues increased by approximately \$2.9 million. Net tuition and fees decreased by approximately \$546 thousand and grants and contracts decreased by approximately \$579 thousand.

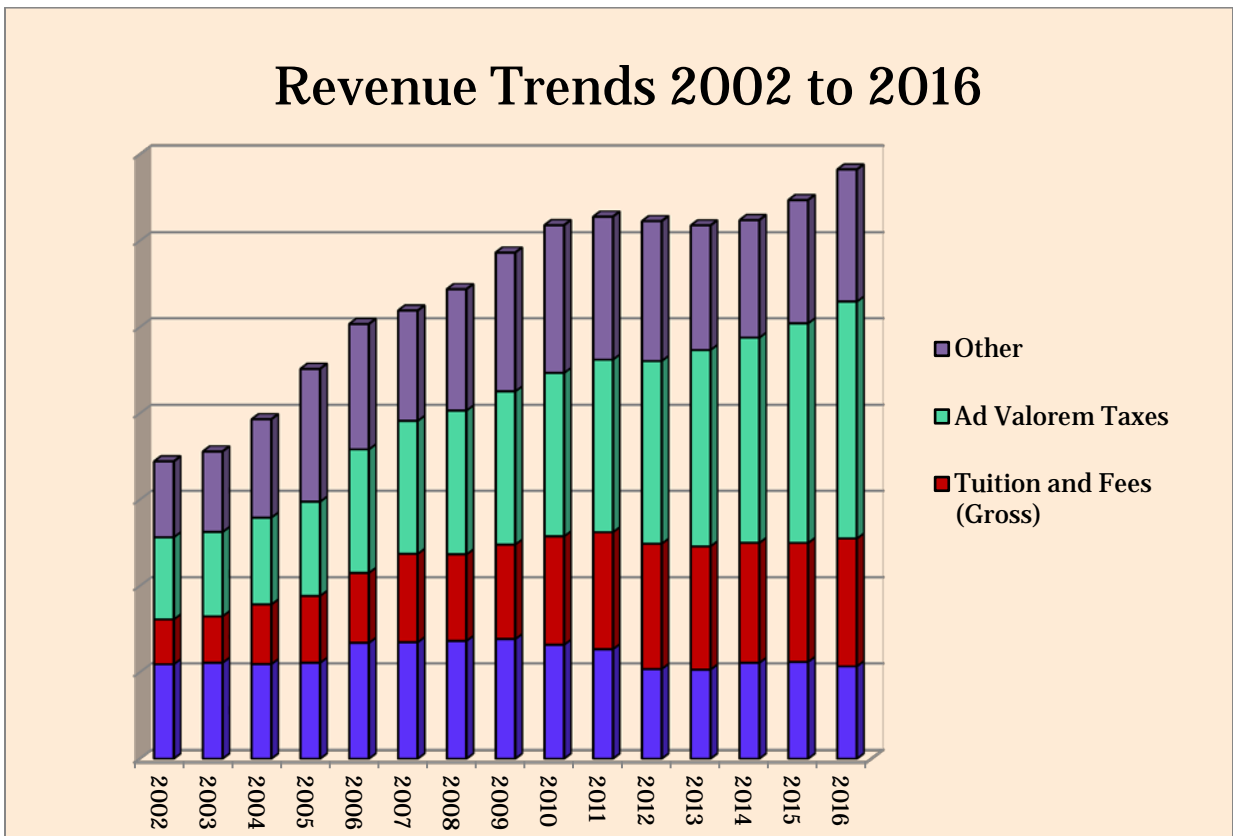
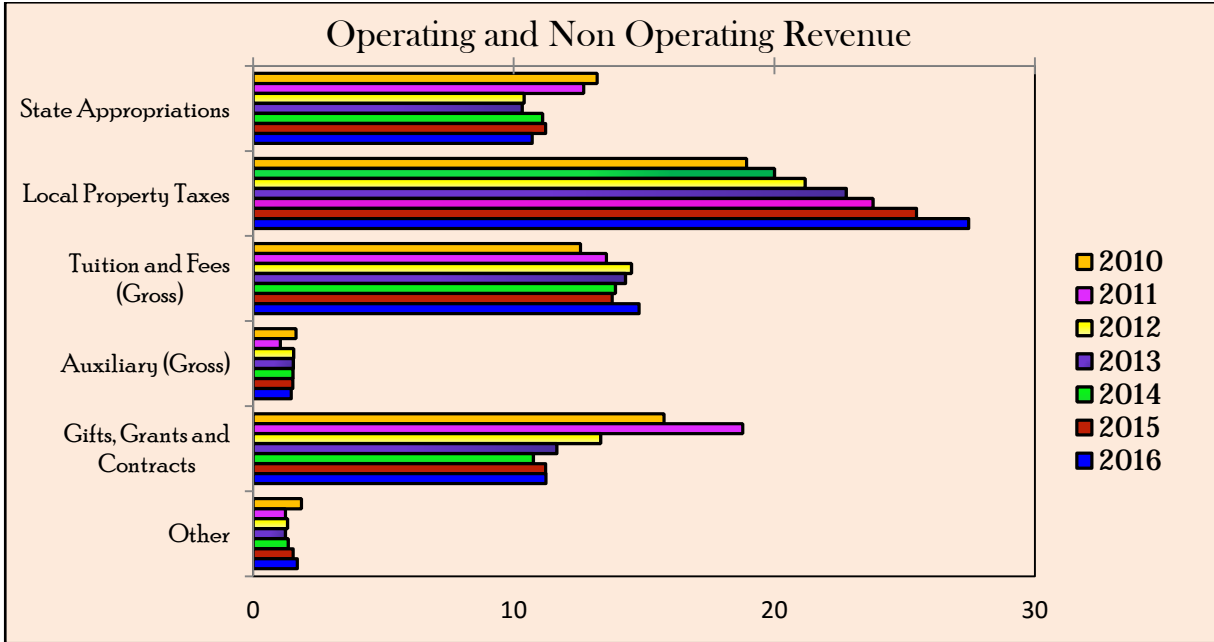
The decrease in tuition and fees for 2015 is the result of decreases in enrollment. Contact hours were down from the prior year by 9.1%. Tuition rates for in-district students increased by approximately 4% from the prior year and the rates for most out-of-district and non-resident students increased by approximately 2.5% and 1.9% respectively.

Total ad valorem taxes were approximately \$1.7 million or 7% higher in 2015 as compared to 2014. The increase in tax revenue recognized is the result of a \$2.5 billion, or 13.7% increase in the net assessed valuation of the district. The total tax rate for the district was \$0.1244 per \$100 of valuation. This represented a decrease of approximately 6.6% from the prior year.

Revenue from gifts, grants and contracts (operating and non-operating) were approximately \$468 thousand more in 2015 than the prior year. The increase in 2015 can primarily be attributed to an increase in Pell grants. This reverses a three year trend of declining Pell grants

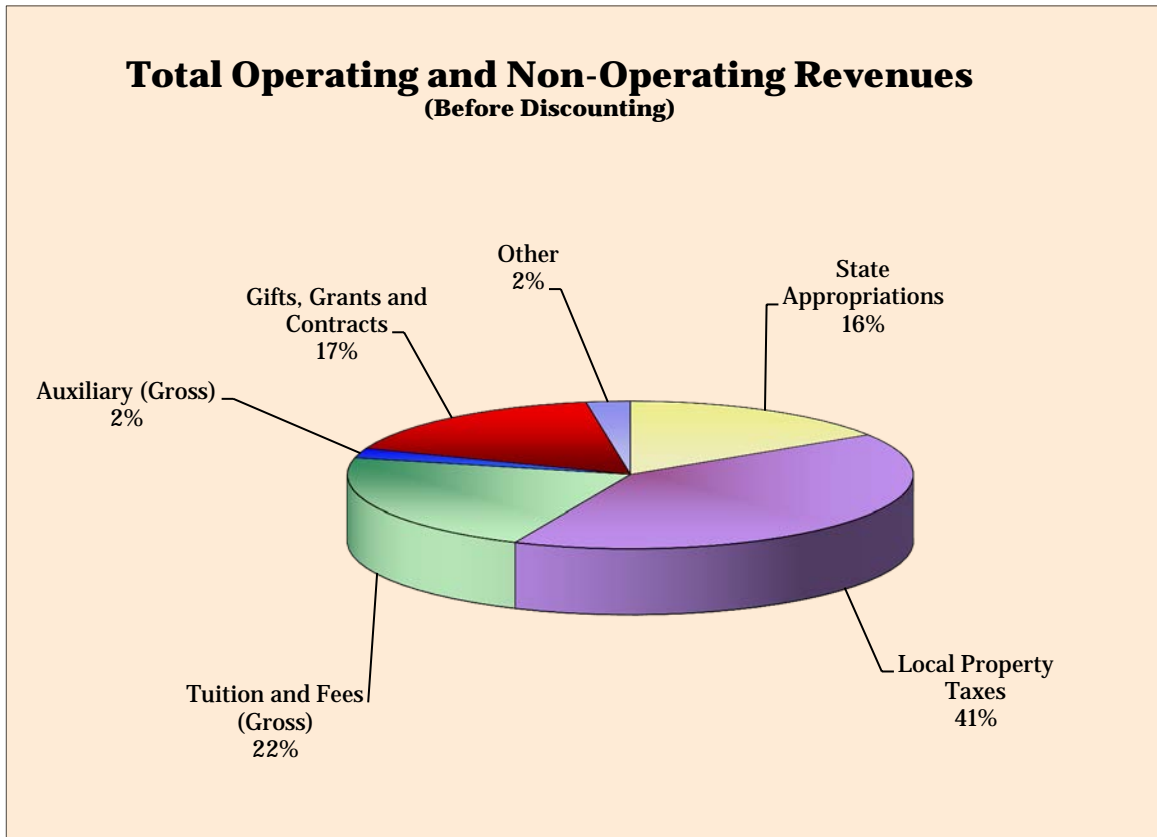
Revenues (Continued)

The following charts graphically display short-term and intermediate revenue trends.



Revenues (Continued)

The following chart reflects revenues from all sources. For purposes of this presentation, tuition, fees and auxiliary revenues are shown prior to scholarship discounts. The Statements of Revenues, Expenses and Changes in Net Position reflect these revenues net of scholarships.



The following table illustrates the composition of total revenue for 2016 compared to 2002.

	Percentage of Total Revenues	
	2016	2002
State Appropriations	16%	30%
Local Property Taxes	41%	26%
Tuition and Fees (Gross)	22%	14%
Gifts Grants & Contracts	17%	23%
Auxiliary Services	2%	3%
Other	2%	4%
	<u>100%</u>	<u>100%</u>

Operating Expenses by Functional Classification

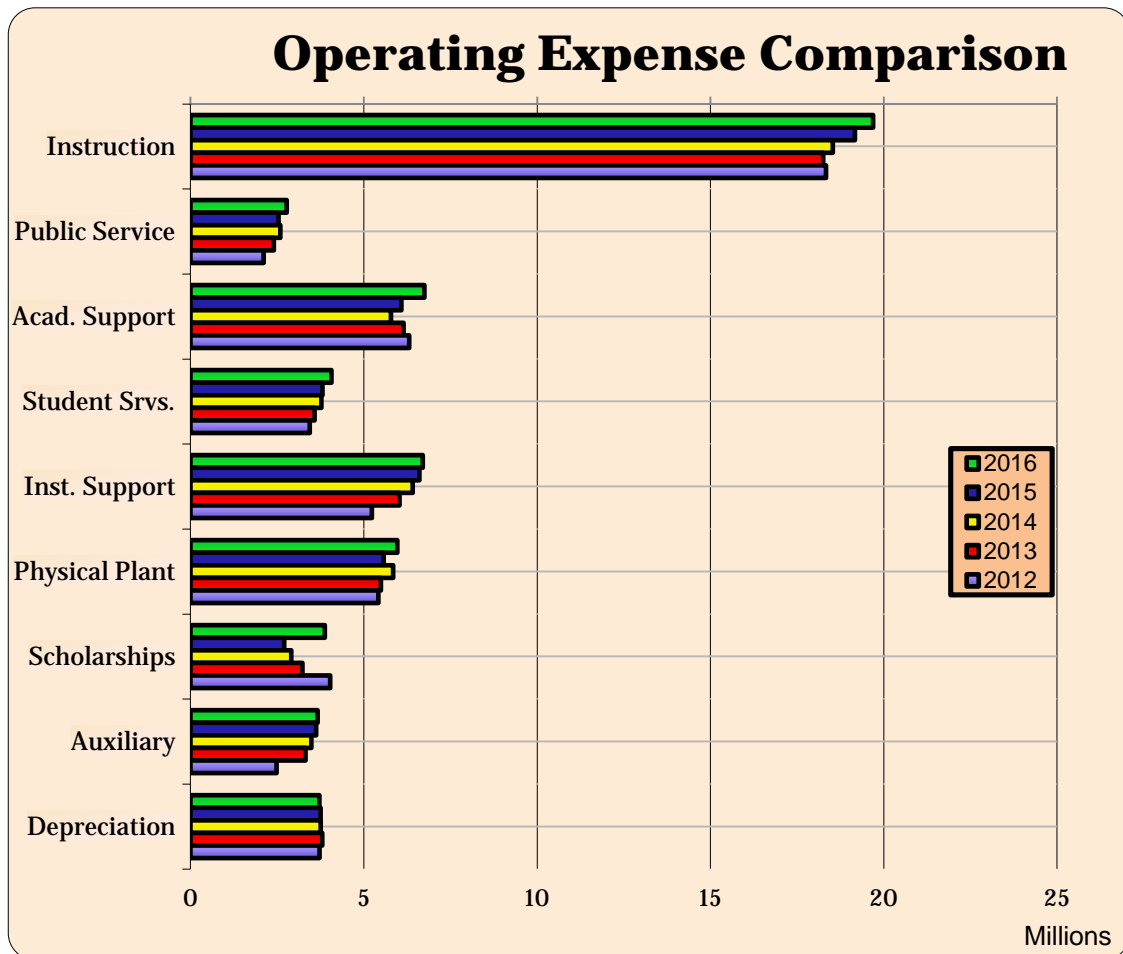
Functional classifications are the traditional categories that have been used to show expenses. They represent the type of programs and services provided. The following chart shows the District's 2016 expenses compared to the 2015, 2014, 2013 and 2012 expenses.

Operating Expenses by Functional Classification (Continued)

A substantial portion of scholarships and capital projects are funded from private gifts, grants and contracts. This includes instructional equipment and operating costs which are funded from annual grants made by the Midland College Foundation, Inc. While each year the District receives substantial revenue from private sources, the amounts are not consistent from year-to-year.

Total operating expenses were approximately \$3.4 million (6.2%) more in 2016 than in 2015. Of this amount, unrestricted operating expenses increased by \$2 million, restricted expenses increased by approximately \$1.3 million, auxiliary expenses increased by \$42 thousand and depreciation expense decreased by \$34 thousand. The increase in unrestricted expenses is primarily due to increases in salary and benefits. Unrestricted salaries and wages were approximately \$1.6 million more in 2016 than in 2015.

Total operating expenses were approximately \$768 thousand (1.4%) more in 2015 than in 2014. Of this amount, unrestricted operating expenses increased by \$856 thousand, restricted expenses decreased by approximately \$223 thousand, auxiliary expenses increased by \$139 thousand and depreciation expense decreased slightly. The increase in unrestricted expenses is primarily due to increases in salary and benefits. Unrestricted salaries and wages were approximately \$923 thousand more in 2015 than in 2014.



Statements of Cash Flows

The Statements of Cash Flows provides information about cash receipts and cash payments during the year. These statements also help users assess the District's ability to generate net cash flows needed to meet its obligations as they come due and its need for external financing.

Summary of Statement of Cash Flows			
	2016	2015	2014
Cash Provided By (Used in):			
Operating Activities	\$ (34,295,404)	(32,538,766)	(29,184,753)
Non-Capital Financing Activities	39,035,899	37,963,225	35,407,922
Capital and Related Financing Activities	(2,921,527)	(5,287,154)	(4,595,721)
Investing Activities	(5,927,496)	4,492,833	(53,705)
Changes in Cash and Cash Equivalents	<u>\$ (4,108,528)</u>	<u>4,630,138</u>	<u>1,573,743</u>

The primary cash receipts from operating activities consist of tuition and fees, housing, board and grant revenue. Cash outlays include payment of wages, benefits, supplies, utilities and scholarships. State allocations and ad valorem taxes were the primary source of non-capital financing. Accounting standards require that we reflect this source of revenue as non-operating, even though these resources are classified as operating revenues in the District's budget.

Cash flows from Capital and Related Financing Activities include proceeds from the issuance of debt, principal and interest disbursements and payments for buildings and other capital acquisitions.

Cash flows from investing activities represent the annual effect of the purchase, sale and maturity of investments, along with interest received from those investments.

Capital Assets and Debt Administration

The following table reflects the District's year-end capital asset balances, net of accumulated depreciation. Capital asset additions totaled approximately \$1.6 million and \$4.1 million in 2016 and 2015, respectively.

Schedule of Capital Assets			
(in thousands)			
	2016	2015	2014
Land	\$2,550	2,552	2,552
Library Books & Collections	451	450	464
Construction/Assets in Progress	923	3,178	1,506
Buildings & Improvements	81,105	82,993	84,421
Land Improvements	9,230	6,470	6,066
Furniture, Equipment, Vehicles	5,935	6,773	7,073
	<u>\$100,194</u>	<u>102,416</u>	<u>102,082</u>

Capital Assets and Debt Administration (Continued)

During 2016, Moody’s Investors Service (“Moody’s”) and Standard and Poor’s (S&P) confirmed their bond ratings of “Aa2” and “AA”, respectively.

The District issued Revenue Refunding Bonds for the purpose of refunding a portion of the 2008 Revenue Bonds. The District had outstanding debt of approximately \$38.1 million and \$39.2 million as of August 31, 2016 and 2015, respectively.

Schedule of Outstanding Debt			
(in thousands)			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
General Obligation Bonds	\$ 26,471	27,833	30,418
Revenue Bonds	11,615	11,340	12,029
	<u>\$ 38,086</u>	<u>39,173</u>	<u>42,447</u>

Economic Factors That Will Affect the Future

The economic condition of the District is influenced by both the state and local economic environment. After a period of historic growth, the local economy has experienced a period of contraction. Although oil and gas exploration has slowed, there continues to be significant activity related to oil and gas production. The county unemployment rate remains low and real estate development continues to result in new properties being added to the tax rolls. The Midland-Odessa Regional Economic Index is 194.9 as of September 2016 compared to a peak of 234.6 in January 2015 and the most recent low of 137.5 in February 2010. The 2016-17 assessed valuation of the tax district is approximately 4% less than the 2015-16 values. This decline ends thirteen consecutive years of increases.

After experiencing a period of decreasing enrollment, the 2015-16 enrollment increased by approximately 7% over the prior year and early enrollment data gives reason to be optimistic that the 2016-17 enrollment will be even higher than the 2015-16 enrollment. The District’s enrollment tends to be inversely related to the local economy.

State support for community college education statewide continues to trend downward. Midland College, along with all Texas community colleges, will continue to face the growing challenge of providing quality educational services and workforce training in the face of diminishing state resources. The 2016-17 appropriations will approximate the 2015-16 amounts.

The District is not aware of any additional facts, decisions or conditions that are expected to have a significant impact on the financial position or results of operations during 2016-17 or subsequent fiscal years.

Requests for Information

This annual financial report is designed to provide interested stakeholders with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to the Vice President of Administrative Services at Midland College, 3600 N. Garfield, Midland, TX 79705.

/S/ Rick Bender

Rick Bender

Vice President of Administrative Services

FINANCIAL STATEMENTS

Midland College District

Exhibit 1

STATEMENTS OF NET POSITION

August 31,

	2016	2015
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 11,464,093	15,494,497
Short-term investments	14,163,140	9,903,473
Accounts receivable, net	2,450,041	2,312,322
Inventories	11,608	6,811
Prepaid expenses	2,556,532	2,577,448
Deposits	20,472	20,472
Total current assets	30,665,886	30,315,023
Non-current Assets:		
Restricted cash and cash equivalents	559,364	637,488
Endowment investments	5,545,852	5,296,632
Other long-term investments	6,962,001	5,291,933
Net capital assets	100,193,677	102,416,050
Other assets-Split Interest Agreements	54,747	51,648
Total non-current assets	113,315,641	113,693,751
Total Assets	143,981,527	144,008,774
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pensions	2,974,496	1,156,973
Deferred outflow on refunding of debt	2,303,819	1,744,057
Total deferred outflows	5,278,315	2,901,030
Total assets and deferred outflows	\$ 149,259,842	146,909,804
LIABILITIES:		
Current Liabilities:		
Accounts payable	\$ 2,220,916	1,636,487
Accrued liabilities	820,436	2,417,248
Accrued compensable absences – current portion	653,335	644,250
Funds held for others	289,601	256,368
Unearned revenues	3,682,046	3,928,663
Bonds payable – current portion	3,265,941	2,082,230
Deposits	30,460	40,160
Total current liabilities	10,962,735	11,005,406
Non-current Liabilities:		
Accrued compensable absences	1,185,156	1,115,374
Net pension liability	7,596,747	6,410,732
Bonds payable – non-current portion	34,819,762	37,090,703
Total non-current liabilities	43,601,665	44,616,809
Total Liabilities	54,564,400	55,622,215
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pensions	2,607,754	1,961,061

Midland College District**Exhibit 1****STATEMENTS OF NET POSITION (CONTINUED)****August 31,**

	<u>2016</u>	<u>2015</u>
NET POSITION:		
Net invested in capital assets	\$ 64,292,675	64,808,031
Restricted for:		
Nonexpendable:		
Student aid	4,458,711	4,458,652
Instructional programs	837,482	847,925
Expendable:		
Student aid	2,967,360	3,782,986
Instructional programs	1,690,251	1,284,074
Capital projects	430,232	766,942
Debt service	209,204	(639,413)
Unrestricted	<u>17,201,773</u>	<u>14,017,331</u>
 Total Net Position (Schedule D)	 \$ <u>92,087,688</u>	 <u>89,326,528</u>
 Total liabilities, deferred inflows, and net position	 \$ <u>149,259,842</u>	 <u>146,909,804</u>

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

Midland College District

Exhibit 2

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

Years ended August 31,

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Tuition and fees (net of discounts of \$5,390,872 and \$4,549,761 , respectively)	\$ 9,417,291	9,231,626
Federal grants and contracts	1,007,312	1,459,586
State grants and contracts	542,856	556,875
Local grants and contracts	1,620,538	1,734,387
Non-governmental grants and contracts	1,498,274	876,017
Sales and services of educational activities	623,109	631,798
Investment income – program restricted	141,569	141,006
Auxiliary enterprises (net of discounts of \$410,032 and \$377,323, respectively)	1,048,833	1,152,738
General operating revenues	<u>749,219</u>	<u>602,605</u>
 Total operating revenues (Schedule A)	 <u>16,649,001</u>	 <u>16,386,638</u>
OPERATING EXPENSES		
Instruction	19,694,082	19,168,713
Public service	2,776,431	2,541,441
Academic support	6,749,072	6,085,354
Student services	4,067,359	3,808,437
Institutional support	6,701,701	6,604,957
Operation and maintenance of plant	5,968,177	5,574,170
Scholarships and fellowships (net of discounts of \$4,435,136 and \$3,836,799, respectively)	3,876,702	2,704,265
Auxiliary enterprises (net of discounts of \$410,032 and \$377,323, respectively)	3,668,451	3,626,536
Depreciation	<u>3,720,031</u>	<u>3,754,347</u>
 Total operating expenses (Schedule B)	 <u>57,222,006</u>	 <u>53,868,220</u>
 OPERATING LOSS	 <u>(40,573,005)</u>	 <u>(37,481,582)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	10,709,259	11,220,596
Maintenance ad valorem taxes	24,490,252	22,447,041
Debt service ad valorem taxes	2,968,141	3,006,637
Federal revenue, non-operating	4,789,844	4,290,359
Gifts	1,743,775	2,297,273
Investment income	185,277	165,178
Contributions in aid of construction	-	925
Interest on capital related debt	(1,521,111)	(1,527,185)
(Loss) gain on disposal of fixed assets	(65,527)	(4,257)
Additions to permanent endowments	<u>34,255</u>	<u>5,262</u>
 Net non-operating revenues (Schedule C)	 <u>43,334,165</u>	 <u>41,901,829</u>

Midland College District**Exhibit 2****STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION (CONTINUED)****Years ended August 31,**

	<u>2016</u>	<u>2015</u>
Increase in net position	2,761,160	4,420,247
Net position – beginning of year	89,326,528	92,169,666
Cumulative effect of change in accounting principle (Note 2)*	<u>-</u>	<u>(7,263,385)</u>
Net position – beginning of year – as restated	<u>89,326,528</u>	<u>84,906,281</u>
Net position – end of year	<u>\$ 92,087,688</u>	<u>89,326,528</u>

- * In accordance with the provisions of Government Accounting Standards Board Statement No. 68, the District has elected to present the cumulative effect of the implementation of the statement all in fiscal year 2015 Statement of Revenues, Expenses and Changes in Net Position. Since community colleges do not have all of the audited beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions required to properly restate the FY2014 financial statements, the restatement will be made directly to the beginning net position in the FY2015 financial statements as a cumulative effect of a change in accounting principle.

Midland College District
STATEMENTS OF CASH FLOWS

Exhibit 3

Years ended August 31,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 10,658,737	10,696,474
Receipts from grants and contracts	4,663,492	4,543,437
Payments to suppliers for goods and services	(14,503,772)	(14,697,306)
Payments to or on behalf of employees	(32,485,266)	(31,054,495)
Payments for scholarships and fellowships	(3,677,272)	(2,586,097)
Other receipts	1,048,677	559,221
Net cash used in operating activities	(34,295,404)	(32,538,766)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	8,034,308	8,869,659
Receipts from ad valorem taxes – operating and maintenance	24,403,234	22,479,858
Receipts from non-operating federal revenue	4,789,844	4,290,359
Receipts from gifts or grants for other than capital purposes	1,743,775	2,297,273
Receipts from student organizations and other agency transactions	247,933	231,438
Payments to student organizations and other agency transactions	(214,351)	(207,701)
Receipts from private gifts for endowment purposes	31,156	2,339
Net cash provided by non-capital financing activities	39,035,899	37,963,225
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from ad valorem taxes – debt services	2,959,789	3,010,666
Receipts from capital grants and gifts	-	925
Purchases of capital assets	(1,563,185)	(4,092,355)
Payments on capital debt – principal	(1,609,052)	(2,629,000)
Payments on capital debt – interest	(2,709,079)	(1,577,390)
Net cash used in capital and related financing activities	(2,921,527)	(5,287,154)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	34,076,679	34,956,255
Interest on investments	164,703	161,399
Purchase of investments	(40,168,878)	(30,624,821)
Net cash (used in) provided by investing activities	(5,927,496)	4,492,833
(Decrease) increase in cash and cash equivalents	(4,108,528)	4,630,138
Cash and cash equivalents – September 1	16,131,985	11,501,847
Cash and cash equivalents – August 31	\$ 12,023,457	16,131,985

Midland College District**Exhibit 3****STATEMENTS OF CASH FLOWS (CONTINUED)****Years ended August 31,**

	<u>2016</u>	<u>2015</u>
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	\$ (40,573,005)	(37,481,582)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	3,720,031	3,754,347
Payments made directly by state for benefits	2,674,951	2,350,937
Changes in related assets and liabilities:		
Receivables, net	(21,777)	(368,655)
Prepaid expenses	20,916	(202,983)
Inventories	(4,797)	(501)
Deferred outflows	(1,817,523)	(548,505)
Accounts payable	585,185	(593,877)
Accrued liabilities	641,672	(1,256,113)
Compensated absences	78,867	75,956
Deferred revenue	(246,617)	(228,851)
Deferred inflows	<u>646,693</u>	<u>1,961,061</u>
Net cash used by operating activities	\$ <u>(34,295,404)</u>	<u>(32,538,766)</u>

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

Midland College District

NOTES TO FINANCIAL STATEMENTS

August 31, 2016 and 2015

NOTE 1 – REPORTING ENTITY

Midland College District (the “District”) was established in 1972, in accordance with the laws of the State of Texas, to serve the educational needs of the public and the surrounding communities. The District is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (“GASB”) Statement No. 14. While the District receives funding from local, state and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

The significant accounting policies followed by the District in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The District is reported as a special-purpose government engaged in business-type activities.

Tuition Discounting

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (“TPEG”), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.033). When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act (HEA) Program Funds

Certain Title IV HEA Program funds are received by the District to pass through to the student. These funds are initially received by the District and recorded as restricted revenue. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Other Tuition Discounts

The District awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The financial statements of the District have been prepared on the accrual basis of accounting. All revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. Encumbrances outstanding at year end, that were provided for in the subsequent year's budget, are reported as designations of net assets since they do not constitute expenditures or liabilities.

Cash and Cash Equivalents

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

Deferred Inflows

In addition to liabilities, the District is aware that the statement of Net Position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so, is not recognized as an inflow of resources (revenue) until that time. Governments are permitted only to report deferred inflows in circumstances specifically authorized by GASB.

Deferred Outflows

In addition to assets, the District is aware that the statement of Net Position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so, will not be recognized as an outflow of resources (expense) until then. Governments are permitted only to report deferred outflows in circumstances specifically authorized by GASB.

Pledges

The District recognizes pledges in the financial statements when all applicable eligibility requirements, including time requirements, are met. Pledges are reported as restricted revenues prior to the fulfillment of all applicable eligibility requirements.

Unearned Revenue and Prepaid Expenditures

Unearned revenue relates to student tuition and fees received during the current fiscal period for classes to be held in the following period. Similarly, prepaid expenditures represent funds expended in the current period relating to the following period.

Inventories

Inventories are stated at the lower of cost or market, determined using the first-in, first-out method.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase. The District considers investments in public fund investment pools to be short-term.

Budgetary Data

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for current operating funds for the fiscal year beginning September 1. The budget, which is prepared on the accrual basis of accounting, is adopted by the District's Board of Trustees. A copy of the approved budget must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library and Governor's Office of Budget and Planning by December 1.

Capital Assets

Capital assets are recorded at cost. Donated capital assets are valued at their estimated fair market value on the date received. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. The District reports depreciation under a single-line as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

Buildings	50 years
Facilities and Other Improvements	20 years
Library Books	15 years
Furniture, Machinery, Vehicles and Other Equipment	10 years
Telecommunications and Peripheral Equipment	5 years

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expense Policy

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a business type activity and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. The operations of the dining hall and bookstore are not performed by the college.

Characterization of Title IV Grant Revenue

In response to guidance provided by the Government Accounting Standards Board (GASB) as question/answer 7.72.10 in the Implementation Guide, revenue received for federal Title IV grant programs (i.e. Pell grants) is now characterized as non-operating revenue as opposed to operating revenue.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

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

Prior Year Restatement

Beginning net position as of September 1, 2015, has been restated as follows for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.

Beginning Net Position	\$	92,169,666
Prior period adjustment – implementation of GASB 68:		
Net pension liability (measurement date as of August 31, 2014)		(7,871,853)
Deferred outflows – college contributions made during fiscal year 2014		<u>608,468</u>
Beginning Net Position, as restated	\$	<u>84,906,281</u>

New Accounting Pronouncements

Statement No. 72, “Fair Value Measurement and Application.”

The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The requirements of this statement are effective for financial statements for fiscal years beginning after June 15, 2015.

Statement 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.”

The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The requirements of this statements are effective for financial statements for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

Statement No. 74, “Financial reporting for postemployment benefit plans other than pension plans.”

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by other postemployment benefits (OPEB) plans that are administered through trusts that meet the specified criteria. The new information will enhance the usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan’s assets over time and provide information for users to assess the relative success of the OPEB plan’s investment strategy and the relative contribution that investment earnings provide to the OPEB plan’s ability to pay benefits to plan members when they come due. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”

The requirements of this Statement will improve the usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”

The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

Statement No. 77. (Continued)

abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

Statement No. 78, "Pensions provided through certain multiple-employer defined benefit pension plans."

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. Earlier application is encouraged.

Statement No. 79, "Certain external investment pools and pool participants."

This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement 80, "Blending requirements for certain component units—an amendment of GASB Statement No. 14."

The requirements of this Statement enhance the comparability of financial statements among governments. Greater comparability improves the usefulness of information reported in financial statements and enhances its value for assessing government accountability. 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 December 15, 2016. Earlier application is encouraged.

Reclassifications

Certain reclassifications have been made to conform with the 2015 presentation.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 3 – AUTHORIZED INVESTMENTS

The Board of Trustees of the District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act (Section 2256.001, Texas Government Code). The investments of the District are in compliance with Trustees' investment policies. Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit and (5) other instruments and obligations authorized by statute.

NOTE 4 – DEPOSITS AND INVESTMENTS

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act of 1995 (Section 2256.001, Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by this state or the United States or its instrumentalities, (5) obligations of political subdivisions rated not less than A by a national investment rating firm, (6) certificates of deposit, (7) repurchase agreements and (8) other instruments and obligations authorized by statute.

Cash and Short-Term Investments: Investment policies for cash and short-term investments, as set forth by the Board of Trustees, authorize the District to invest in interest-bearing time deposits, short-term cash funds, money market funds, intermediate cash funds, U.S. Government-backed obligations, municipal bonds and commercial paper. All investments must be held by the financial institutions organized under Federal or State law.

Investments: Investment policies as set forth by the Board of Trustees also authorize the District to invest in bonds or other securities.

Deposits: At August 31, 2016 and 2015, the carrying amount of the District's deposits was \$5,892,600 and \$9,636,613, respectively; and bank balances equaled \$5,587,664 and \$4,280,688. Bank balances of \$528,091 and \$724,415 are covered by federal depository insurance and \$5,059,573 and \$3,556,273 were covered by collateral pledged in the District's name. The collateral was held by the District or by its Agent. There were no uncollateralized bank balances at either year end. (This would have included any bank balance that was collateralized with securities held by the pledging financial institution's department or agent but not in the District's name). The District held \$104,659 and \$840,323 in state approved public investment pools at August 31, 2016 and 2015, respectively.

Cash and Deposits included on Exhibit 1, Statements of Net Position, consist of the items reported below:

	Cash and Deposits	
	<u>2016</u>	<u>2015</u>
Bank Deposits		
Demand Deposits	\$ 1,451,055	2,001,454
Money Market Deposits	4,441,545	7,635,159
	<u>5,892,600</u>	<u>9,636,613</u>
Cash and Cash Equivalent:		
Petty Cash on Hand	6,200	6,200
Investments due within 90 days	6,124,657	6,489,172
	<u>6,130,857</u>	<u>6,495,372</u>
Total Cash and Deposits	<u>\$ 12,023,457</u>	<u>16,131,985</u>

Midland College District
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	August 31, 2016 Market Value	August 31, 2015 Market Value
U.S Government Securities	\$ 16,403,826	7,845,575
Public Funds Investment Pools	104,659	840,323
Municipal Bonds	5,773,165	8,750,312
Certificates of Deposit	<u>10,514,000</u>	<u>9,545,000</u>
Total Investments	<u>\$ 32,759,650</u>	<u>26,981,210</u>
Total Cash and Deposits	\$ 5,898,800	9,642,813
Total Investments	<u>32,795,650</u>	<u>26,981,210</u>
Total Deposits and Investments	<u>\$ 38,694,450</u>	<u>36,624,023</u>
Cash and Temporary Investments (Exhibit 1)	\$ 12,023,457	16,131,985
Investments (Exhibit 1)	<u>26,670,993</u>	<u>20,492,038</u>
Total Deposits and Investments	<u>\$ 38,694,450</u>	<u>36,624,023</u>

As of August 31, 2016 the District had the following investments and maturities:

Investment Type	Investment Maturities in Years				
	Fair Value	Less than 1	1 to 2	2 to 5	5 to 10
Public Funds Investment Pools	\$ 104,659	104,659	-	-	-
U.S. Government Securities	16,403,826	8,119,658	5,992,122	1,688,764	603,282
Municipal Bonds	5,773,165	4,145,748	630,261	800,469	196,687
Certificates of Deposit	<u>10,514,000</u>	<u>9,570,000</u>	<u>471,000</u>	<u>473,000</u>	-
Total Fair Value	<u>\$ 32,795,650</u>	<u>21,940,065</u>	<u>7,093,383</u>	<u>2,962,233</u>	<u>799,969</u>

As of August 31, 2015 the District had the following investments and maturities:

Investment Type	Investment Maturities in Years				
	Fair Value	Less than 1	1 to 2	2 to 5	5 to 10
Public Funds Investment Pools	\$ 840,323	840,323	-	-	-
U.S. Government Securities	7,845,575	3,047,847	2,240,298	2,557,430	-
Municipal Bonds	8,750,312	5,270,172	1,957,677	1,330,376	192,087
Certificates of Deposit	<u>9,545,000</u>	<u>7,764,000</u>	<u>923,000</u>	<u>858,000</u>	-
Total Fair Value	<u>\$ 26,981,210</u>	<u>16,922,342</u>	<u>5,120,975</u>	<u>4,745,806</u>	<u>192,087</u>

Interest Rate Risk: In order to limit exposure to fair value losses arising from increasing interest rates, the District has established maturity limitations for each fund group. Operating funds are primarily invested in instruments that offer high liquidity and have maturities corresponding with the short to intermediate operating needs of the District. Plant funds and other capital project funds have maturities which correspond to the associated project or debt service dates. Endowment funds are invested in long-term treasury, agency, municipal securities, and certificate of deposit. In addition, state law limits the maturities of collateralized mortgage obligations to no more than 10 years and limits maturities of commercial paper and banker's acceptances to no more than 270 days. Repurchase agreements are limited to 2 years and reverse repurchase agreements are not to exceed 90 days.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk: In accordance with state law and the District's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1 and investments in obligations of states, agencies, counties, cities and other political subdivisions must be rated at least A. Applicable credit ratings of investments at August 31, 2016 and 2015 are reported below:

Investment Type	Credit Rating
Municipal Bonds	S&P: A thru AAA
U.S. Government Securities	S&P: AA+
TexPool	S&P: AAAm
Lone Star Government Overnight	S&P: AAAm
TexSTAR	S&P: AAAm
Texas Daily	S&P: AAAm

Concentration of Credit Risk: The District does not place a limit on the amount the District may invest in any one issuer. More than 5% of the District's investments are in FNMA Bonds (6.0%) and FHLM Bonds (14.2%), FFCB Bonds (13.6%), and FHLB Bonds (23.2%).

Custodial Credit Risk: The District's investments have no custodial credit risk.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

At August 31, 2016 and 2015, all investments (as listed in Note 4), except for certificates of deposits are level 1; certificates of deposit are level 2.

NOTE 6 – AD VALOREM TAXES RECEIVABLE

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

At August 31, 2016	
Assessed valuation of the District	\$ 22,806,350,681
Less exemptions	<u>1,450,393,324</u>
Net assessed valuation of the District	<u>\$ 21,355,957,357</u>
At August 31, 2015	
Assessed valuation of the District	\$ 21,632,033,264
Less exemptions	<u>1,308,136,128</u>
Net assessed valuation of the District	<u>\$ 20,323,897,136</u>

Midland College District
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
August 31, 2016 and 2015

NOTE 6 – AD VALOREM TAXES RECEIVABLE (CONTINUED)

At August 31, 2016

	Maintenance and Operation	Debt Service	Total
Authorized tax rate per \$100 valuation (Maximum per enabling legislation)	\$.3000	.5000	.8000
Assessed tax rate per \$100 valuation	\$.1121	.0138	.1259

At August 31, 2015

	Maintenance and Operation	Debt Service	Total
Authorized tax rate per \$100 valuation (Maximum per enabling legislation)	\$.3000	.5000	.8000
Assessed tax rate per \$100 valuation	\$.1097	.0147	.1244

Taxes levied for the years ended August 31, 2016 and 2015 are \$26,893,557 and \$25,280,896, respectively. 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.

At August 31, 2016

<u>Taxes Collected</u>	Current Operations	Debt Service	Total
Current taxes collected	\$ 23,787,743	2,931,276	26,719,019
Delinquent taxes collected	140,533	17,317	157,850
Penalties and interest collected	158,634	19,548	178,182
Total collections	\$ 24,086,910	2,968,141	27,055,051

At August 31, 2015

<u>Taxes Collected</u>	Current Operations	Debt Service	Total
Current taxes collected	\$ 22,046,361	2,952,608	24,998,969
Delinquent taxes collected	255,220	34,182	289,402
Penalties and interest collected	178,276	23,876	202,152
Total collections	\$ 22,479,857	3,010,666	25,490,523

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 6 – AD VALOREM TAXES RECEIVABLE (CONTINUED)

Tax collections (including penalties, interest and delinquent collections) for the years ended August 31, 2016 and 2015 were in excess of 100% of the respective year tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

Ad valorem taxes receivable includes the following:

	2016	2015
Current unrestricted fund	\$ 644,547	510,673
Debt service fund	85,439	72,590
	<u>729,986</u>	<u>583,263</u>
Allowance for uncollectible taxes	<u>(255,495)</u>	<u>(204,142)</u>
Net ad valorem taxes receivable	<u>\$ 474,491</u>	<u>379,121</u>

NOTE 7 – CAPITAL ASSETS

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

	Balance September 1, 2015	Increases	Decreases	Balance August 31, 2016
<u>Not Depreciated:</u>				
Land	\$ 2,551,660	-	1,410	2,550,250
Collectibles	42,000	7,000	-	49,000
Construction in process	3,177,823	357,657	3,156,259	379,221
Other assets in process	-	543,534	-	543,534
Subtotal	<u>5,771,483</u>	<u>908,191</u>	<u>3,157,669</u>	<u>3,522,005</u>
<u>Other Capital Assets:</u>				
Buildings	110,991,638	221,500	-	111,213,138
Land improvements	8,649,116	3,154,455	-	11,803,571
Leasehold improvements	572,427	-	-	572,427
Library books	2,049,188	51,667	-	2,100,855
Furniture, machinery, vehicles and other equipment	<u>17,319,778</u>	<u>404,488</u>	<u>899,528</u>	<u>16,824,738</u>
Subtotal	<u>139,582,147</u>	<u>3,832,110</u>	<u>899,528</u>	<u>142,514,729</u>
<u>Accumulated Depreciation:</u>				
Buildings	28,569,601	2,087,748	-	30,657,349
Land improvements	2,179,160	394,800	-	2,573,960
Leasehold improvements	1,835	22,016	-	23,851
Library books	1,641,166	57,370	-	1,698,536
Furniture, machinery, vehicles and other equipment	<u>10,545,818</u>	<u>1,158,097</u>	<u>814,554</u>	<u>10,889,361</u>
Subtotal	<u>42,937,580</u>	<u>3,720,031</u>	<u>814,554</u>	<u>45,843,057</u>
Net other capital assets	<u>96,644,567</u>	<u>112,079</u>	<u>84,974</u>	<u>96,671,672</u>
Net capital assets	<u>\$ 102,416,050</u>	<u>1,020,270</u>	<u>3,242,643</u>	<u>100,193,677</u>

Midland College District
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
August 31, 2016 and 2015

NOTE 7 – CAPITAL ASSETS (CONTINUED)

Capital assets activity for the year ended August 31, 2015, was as follows:

	Balance September 1, 2014	Increases	Decreases	Balance August 31, 2015
<u>Not Depreciated:</u>				
Land	\$ 2,551,660	-	-	2,551,660
Collectibles	42,000	-	-	42,000
Construction in process	1,505,514	3,010,934	1,338,625	3,177,823
Subtotal	<u>4,099,174</u>	<u>3,010,934</u>	<u>1,338,625</u>	<u>5,771,483</u>
<u>Other Capital Assets:</u>				
Buildings	110,909,126	92,638	10,126	110,991,638
Land improvements	7,885,900	763,216	-	8,649,116
Leasehold improvements	-	572,427	-	572,427
Library books	2,005,955	43,233	-	2,049,188
Furniture, machinery, vehicles and other equipment	16,677,321	974,024	331,567	17,319,778
Subtotal	<u>137,478,302</u>	<u>2,445,538</u>	<u>341,693</u>	<u>139,582,147</u>
<u>Accumulated Depreciation:</u>				
Buildings	26,487,817	2,081,784	-	28,569,601
Land improvements	1,820,332	358,828	-	2,179,160
Leasehold improvements	-	1,835	-	1,835
Library books	1,583,584	57,582	-	1,641,166
Furniture, machinery, vehicles and other equipment	9,603,444	1,254,318	311,944	10,545,818
Subtotal	<u>39,495,177</u>	<u>3,754,347</u>	<u>311,944</u>	<u>42,937,580</u>
Net other capital assets	<u>97,983,125</u>	<u>(1,308,809)</u>	<u>29,749</u>	<u>96,644,567</u>
Net capital assets	<u>\$ 102,082,299</u>	<u>1,702,125</u>	<u>1,368,374</u>	<u>102,416,050</u>

NOTE 8 – LONG-TERM LIABILITIES

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

	Balance September 1, 2015	Additions	Reductions	Balance August 31, 2016	Current Portion
<u>Bonds</u>					
General obligation bonds	\$ 27,832,933	-	1,362,230	26,470,703	2,335,941
Revenue bonds	11,340,000	9,710,000	9,435,000	11,615,000	930,000
Total bonds	<u>39,172,933</u>	<u>9,710,000</u>	<u>10,797,230</u>	<u>38,085,703</u>	<u>3,265,941</u>
<u>Other liabilities</u>					
Compensated absences	1,759,624	146,055	67,188	1,838,491	653,335
Net pension liability	6,410,732	3,151,563	1,965,548	7,596,747	-
Total other liabilities	<u>8,170,356</u>	<u>3,297,618</u>	<u>2,032,736</u>	<u>9,435,238</u>	<u>653,335</u>
Total long-term liabilities	<u>\$ 47,343,289</u>	<u>13,007,618</u>	<u>12,829,966</u>	<u>47,520,941</u>	<u>3,919,276</u>

Midland College District
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
August 31, 2016 and 2015

NOTE 8 – LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the year ended August 31, 2015, was as follows:

	Balance September 1, 2014	Additions	Reductions	Balance August 31, 2015	Current Portion
Bonds					
General obligation bonds	\$ 30,418,057	-	2,585,124	27,832,933	1,362,230
Revenue bonds	12,029,000	-	689,000	11,340,000	720,000
Total bonds	<u>42,447,057</u>	<u>-</u>	<u>3,274,595</u>	<u>39,172,933</u>	<u>2,082,230</u>
Other liabilities					
Compensable absences	1,683,668	153,512	77,556	1,759,624	644,250
Net pension liability	-	9,470,389	3,059,657	6,410,732	-
Total other liabilities	<u>1,683,668</u>	<u>9,623,901</u>	<u>3,137,213</u>	<u>8,170,356</u>	<u>644,250</u>
Total long-term liabilities	<u>\$ 44,130,725</u>	<u>9,623,901</u>	<u>6,411,337</u>	<u>47,343,289</u>	<u>2,726,480</u>

NOTE 9 – DEBT OBLIGATIONS

Bonds Payable

Debt service requirements at August 31, 2016, were as follows:

For the Year Ended August 31,	Revenue Bonds		General Obligation Bonds		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	930,000	703,586	2,050,000	916,100	2,980,000	1,619,686
2018	945,000	691,392	2,135,000	843,075	3,080,000	1,534,467
2019	870,000	434,348	2,230,000	766,450	3,100,000	1,200,798
2020	905,000	194,513	2,335,000	675,150	3,240,000	869,663
2021	920,000	174,038	2,445,000	579,550	3,365,000	753,588
2022-2026	4,920,000	548,888	14,155,000	1,204,675	19,075,000	1,753,563
2027-2028	2,125,000	60,131	-	-	2,125,000	60,131
Total cash payments	<u>11,615,000</u>	<u>2,806,896</u>	<u>25,350,000</u>	<u>4,985,000</u>	<u>36,965,000</u>	<u>7,791,896</u>
Unamortized Prem/Disc	-	-	1,120,703	(1,120,703)	1,120,703	(1,120,703)
Total	<u>\$ 11,615,000</u>	<u>2,806,896</u>	<u>26,470,703</u>	<u>3,864,297</u>	<u>38,085,703</u>	<u>6,671,193</u>

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 10 – BONDS PAYABLE

2008 Revenue Bonds

- District Building Revenue Bond and Refunding, Series 2008
- The bond was used to complete construction and purchase equipment for college buildings and facilities.
- Issued on July 30, 2008
- Original amount issued, \$12,355,000; amount authorized, \$12,355,000
- Source of payment – pledged revenues

Bonds payable are due in semi-annual installments varying from \$133,418 to \$639,033, at an interest rate of 4.94%. The final installment was originally due on 2008, but due to refunding the final payment will be in April 2018.

2005 General Obligation Bonds

- General Obligation Bonds, Series 2005
- The bonds were used for constructing and equipping college buildings and facilities.
- Issued on July, 1 2005
- Original amount issued \$40,775,000: amount authorized \$41,769,999
- Bond issued at net premium of \$1,636,765
- Source of payment – Ad valorem taxes

Bonds payable are due in semi-annual installments varying from \$74,766 to \$3,234,766 with partial interest rates ranging from 3.5% to 5.0%. The final installment was originally due in 2026, but due to refunding the final installment was paid in February 2015.

2012 General Obligation Refunding Bonds

- General Obligation Refunding Bonds, Series 2012
- The bonds were used for an advance refunding of the General Obligation Bonds, Series 2005.
- Issued May 23, 2012
- Original amount issued \$26,839,052; amount authorized \$26,839,052.
- Bond issued at a net premium of \$3,443,375.
- Source of payment – Ad valorem taxes

Bonds payable are due at semi-annual installments varying from \$648,181 to \$3,234,766 with interest rates ranging from 2% to 22.9%. The average coupon rate is 3.7%. The final installment is due in 2026.

2016 Revenue Refunding Bonds

- District Building Refunding Revenue Bonds, Series 2016
- The bonds were used for an advance refunding of the Revenue Refunding Bonds, Series 2008.
- Issued May 1, 2016
- Original amount issued \$9,710,000; amount authorized \$9,710,000.
- Source of payment – pledged revenues

Bonds payable are due at semi-annual installments varying from \$180,107 to \$551,231 with interest rate of 2.25%. The final installment is due in 2022.

Midland College District
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
August 31, 2016 and 2015

NOTE 11 – DEFEASED BONDS OUTSTANDING

Bond Issue	Year Refunded	Par Value Outstanding
Revenue Bond Series 2008	2016	\$8,715,000
Total		\$8,715,000

NOTE 12 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at August 31, were as follows:

	2016	2015
Student Receivables	\$ 1,751,577	1,437,289
Taxes Receivable	729,986	583,263
State Receivable	127,898	144,649
Federal Receivable	366,639	297,994
Accounts Receivable	520,814	716,208
Interest Receivable	180,630	160,056
Subtotal	3,677,544	3,339,459
Allowance for Doubtful Accounts	(1,227,503)	(1,027,137)
Total Receivables	\$ 2,450,041	2,312,322

Payables

Payables at August 31, were as follows:

	2016	2015
Vendors Payable	\$ 2,091,459	1,506,774
Students Payable	129,457	129,713
Total Payables	\$ 2,220,916	1,636,487

NOTE 13 – DEFINED BENEFIT PENSION PLAN

The State of Texas has joint contributory retirement plans for almost all its employees.

A. 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.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 13 – EMPLOYEES' RETIREMENT PLANS (CONTINUED)

B. 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.

C. 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.

D. Contributions

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

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

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 13 – EMPLOYEES' RETIREMENT PLANS (CONTINUED)

D. Contributions (Continued)

	Contribution Rates	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
District	6.8%	6.8%
2015 District Contributions	\$ 606,622	
2015 State of Texas On-behalf Contributions	\$ 431,230	
2015 Member Contributions	\$ 1,022,194	

The District's contributions to the TRS plan in 2016 were \$686,879 as reported in the Schedule of District Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2016 were \$454,514.

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.

Public junior colleges or junior college districts 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, 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.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 13 – EMPLOYEES' RETIREMENT PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Inflation	2.5%
Salary Increases*	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit changes during the year	None
Ad-hoc post-employment benefit changes	None

**Includes Inflation of 2.5%*

Actuarial methods and assumptions were updated based on a study of actual experience for the four year period ending August 31, 2014, and adopted on September 24, 2015, by the TRS Board of Trustees, who have sole authority to determine the actuarial assumptions used for the plan. The most significant changes were related to the update of the postretirement mortality rates based on the most recent TRS member experience and the decrease in the assumption for general wage inflation from 3.0% to 2.5%. Other changes to overall assumptions and methods had a minor impact on the results of the actuarial valuation and the related pension liability.

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

F. 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:

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 13 – EMPLOYEES’ RETIREMENT PLANS (CONTINUED)

F. Discount Rate (Continued)

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity:			
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%
Stable Value:			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Value Hedge Funds	-	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return:			
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	-	1.2%	0.0%
Risk Parity:			
Risk Parity	5%	6.7%	0.3%
Inflation expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

Source: Teacher Retirement System of Texas 2015 Comprehensive Annual Financial Report

G. 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.

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase in Discount rate (9.0%)</u>
The District's proportionate share of the net pension liability: \$	11,902,671	7,596,747	4,010,180

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 13 – EMPLOYEES’ RETIREMENT PLANS (CONTINUED)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2016, the District reported a liability of \$7,596,747 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:

The District’s proportionate share of the collective net pension liability	\$	7,596,747
State’s proportionate share that is associated with the District		<u>5,178,200</u>
Total	\$	<u><u>12,744,947</u></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 the measurement date of August 31, 2015 the employer’s proportion of the collective net pension liability was 0.0214909%, which was a decrease of 0.0025091% from its proportion measured as of August 31, 2014.

For the year ended August 31, 2016, the District recognized pension expense of \$737,810 and revenue of \$737,810 for support provided by the State. Refer to the FY2 schedule of On-Behalf Contributions for this information posted on the TRS website under GASB 67 & 68.

At August 31, 2016, the District reported its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 82,455	291,950
Changes in actuarial assumptions	346,560	271,019
Difference between projected and actual investment earnings	1,870,910	1,469,536
Changes in proportion and difference between the employer’s contributions and proportionate share of contributions	(4)	575,249
Contributions paid to TRS subsequent to the measurement date	<u>674,575</u>	<u>-</u>
Total	\$ <u><u>2,974,496</u></u>	<u><u>2,607,754</u></u>

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 13 – EMPLOYEES’ RETIREMENT PLANS (CONTINUED)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The net amounts of the employer’s balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended August 31:</u>	<u>Pension Expense Amount</u>
2017	(113,862)
2018	(113,859)
2019	(113,859)
2020	375,987
2021	(96,898)
Thereafter	(245,342)

NOTE 14 – OTHER RETIREMENT PLAN

Optional Retirement Plan

Plan Description. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.65% for 2016 and 6.6% for 2015, but was funded at 2.97% and 3%, respectively, after the reduction in accordance with Senate Bill (S.B.) 1812. The District contributes .71% for employees who were participating in the Optional Retirement Program prior to September 1, 1995, and .2% for all other employees. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. Effective September 1, 2013, Senate Bill (S.B.) 1812 limits the amount of the state’s contribution to 50% of the cost of eligible employees in the reporting district.

The retirement expense for the Optional Retirement Program to the State for the District was \$196,298 and \$216,514 for the fiscal years ended August 31, 2016 and 2015, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the District.

The total payroll for all District employees was \$26,621,352 and \$25,634,213 for fiscal years 2016 and 2015, respectively. The total payroll of employees covered by the Optional Retirement Program was \$7,111,786 and \$7,111,749 for fiscal years 2016 and 2015, respectively.

NOTE 15 – POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the full time employees may become eligible for those benefits if they reach normal retirement age while working for the state. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state’s contribution was \$1,740,843 and \$1,728,041 for the years ended August 31, 2016 and 2015, respectively, for retired and active employees. The cost of providing these benefits for retirees is not separable from the cost of providing benefits for the active employees.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 16 – COMPENSATED ABSENCES

Accumulated unpaid vacation pay is accrued as incurred in accordance with NCGA Statement 4, *Accounting and Financial Reporting for Claims and Judgments and Compensated Absences*.

To accrue vacation, an individual must be employed on a full-time basis for a twelve-month appointment. Employees can earn annual vacation leave at the rate of 80 hours per year for the first 9 years up to a maximum of 160 hours per year after 20 years of service. There is no requirement that annual leave be taken, but the maximum permissible accumulation is 120 hours for employees with less than 10 years of service. Employees with 10-19 years of service may accumulate up to 180 hours and employees with 20 years of service or more may accumulate up to 240 hours. At termination, employees are paid for any accumulated annual vacation leave not to exceed their annual entitlement. The liability for accumulated unpaid vacation leave was approximately \$648,000 and \$635,000 on August 31, 2016 and 2015, respectively.

Employees earn sick leave at the rate of 12 hours per month for the first six months of employment, and at a rate of 8 hours for each month thereafter. Sick days may be accumulated up to 720 hours. Upon retirement, or upon termination with 10 years or more service, the employee may be paid for any accumulated sick leave in excess of 240 hours, at a rate of 1/2 of the employee's current base hourly rate. If an employee terminates prior to 10 years of continuous full-time service, all accumulated sick leave is forfeited. The accrued sick leave amounted to approximately \$1,112,000 and \$1,085,000 on August 31, 2016 and 2015, respectively.

NOTE 17 – SELF INSURED WORKERS COMPENSATION

Effective December 1991 through August 1996, the District participated in a public entity risk pool for workers compensation. The participants of the pool include several other community and junior college districts and public school districts. Effective September 1996, the District has workers compensation insurance through a fully funded insurance provider. The District maintains a liability for any outstanding claims incurred from December 1991 through August 1996 based on the administrator's evaluation.

The plan provided coverage to each participant in amounts up to the lesser of each participant's individual loss fund or \$200,000. The District's loss fund at August 31, 2016 and 2015 was \$1,928 and \$2,011, respectively. Each workers compensation claim in excess of \$200,000 is covered by a "stop-loss" policy. The plan does not provide for any other type of insurance. The District retains no risk of loss for any other types of claims as the District purchases insurance from commercial insurance carriers for all other types of risk coverage. As of August 31, 2016, the District had an estimated claims accrual of approximately \$1,928 for workers compensation claims and had paid claims in 2016 totaling approximately \$69.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 18 – FUND BALANCES

Ending fund balances at August 31 were as follows:

	<u>2016</u>	<u>2015</u>
Current funds:		
Fund balance, unrestricted	\$ 16,015,357	12,830,916
Fund balance, auxiliary enterprises	1,186,415	1,186,415
Fund balance, restricted	<u>5,297,047</u>	<u>5,194,589</u>
Total current fund balance	22,498,819	19,211,920
Fund balance, endowment and similar funds	5,296,193	5,306,577
Fund balance, plant funds	<u>64,292,676</u>	<u>64,808,031</u>
Fund balance, primary government	<u>\$ 92,087,688</u>	<u>89,326,528</u>

NOTE 19 – LITIGATION

In the ordinary course of business, the District is involved with various claims and potential litigation. Management does not believe that any of these matters will have a material adverse effect on the financial position of the District.

NOTE 20 – CONTRACTS AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant award funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2016 and 2015 for which monies have not been received nor funds expended total \$560,751 and \$1,277,482, respectively. All of these amounts were from federal contract and grant awards.

NOTE 21 – INCOME TAXES

The District is exempt from income taxes under Internal Revenue Code Section 115, Income of States Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The District had no unrelated business income tax liability for the years ended August 31, 2016 and 2015.

NOTE 22 – SPLIT INTEREST AGREEMENTS

The District has a beneficial interest in a split interest agreement in which it will receive 25% of the remaining assets upon the death of the lead beneficiaries. The District recognized \$3,099 and \$2,923 representing the discounted present value of the expected distributions for the years ended August 31, 2016 and 2015, respectively. The contribution receivable was approximately \$54,800 and \$51,600 as of August 31, 2016 and 2015, respectively.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 23– COMMITMENTS

As of August 31, 2016, the District has awarded the following contracts for projects that are in progress:

Jenzabar (ERP Conversion)	\$	428,565
Advantage USAA, Inc.		335,543
Omni Update (website)		43,000

NOTE 24 – RELATED PARTY

Midland College Foundation, Inc. (the “Foundation”), an independent corporation organized for the purpose of fund raising to benefit the District, made contributions of \$1,600,633 and \$2,279,703 in fiscal years 2016 and 2015, respectively. Two trustees of the District are also on the Board of Directors of the Foundation.

NOTE 25 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (IN ACCORDANCE WITH GASB STATEMENT NO. 45)

Plan Description. The District contributes to the State Retiree Health Plan (“SRHP”), a cost-sharing multiple-employer, defined benefit postemployment health care plan administered by the Employees Retirement System of Texas (ERS). SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by State law and may be amended by the Texas Legislature.

ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us/>.

Funding Policy. Section 1551.055 of Chapter 1551, Texas Insurance Code provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution.

The employer’s share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS Board of Trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB Statement No. 45.

The employer contribution rate represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2016 and 2015

NOTE 25 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (IN ACCORDANCE WITH GASB STATEMENT NO. 45) (CONTINUED)

The District's contributions to SRHP for the years ended August 31, 2016, 2015 and 2014 were \$117,090, \$89,778 and \$73,519, respectively, which equaled the required contributions each year.

In addition to the SRHP, the District also contributes funds for dental and life insurance benefits for retirees. The District's contributions for the years ended August 31, 2016, 2015 and 2014 were \$49,767, \$48,080 and \$45,602, respectively, which equaled the required contributions each year.

NOTE 26 – BRANCH CAMPUS MAINTENANCE TAX

A branch campus maintenance tax that is established by election is levied by Pecos County. It is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the county. Collections are transferred to the college to be used for operation of a Branch Campus at Fort Stockton, Texas. This revenue is reported under Local Grants and Contracts.

	<u>2016</u>	<u>2015</u>
County or Independent School District:	Collections (including penalties and interest)	Collections (including penalties and interest)
Pecos County	\$ 975,778	1,040,704

NOTE 27 – SUBSEQUENT EVENTS

Management of the District has performed an evaluation of the District's activity through December 8, 2016, the date these financial statements were available for issuance and noted no significant event that would require recording or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

Midland College District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

For the Year Ended August 31, 2016

Fiscal year ending August 31,*	2015**	2014
District's proportionate share of collective net pension liability (%)	0.0214909 %	0.0240000 %
District's proportionate share of collective net pension liability (\$)	\$ 7,596,747	6,410,732
State's proportionate share of net pension liability associated with District	<u>5,178,200</u>	<u>4,326,729</u>
Total	\$ 12,774,947	10,737,461
District's covered-employee payroll	\$ 15,256,625	14,206,012
District's proportionate share of collective net pension liability as a percentage of covered-employee payroll	49.79 %	45.13 %
Plan fiduciary net position as percentage of the total pension liability	78.43 %	83.25 %

*The amounts presented above are as of the measurement date of the collective net pension liability

**Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

Midland College District
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
For the Year Ended August 31, 2016

Fiscal year ending August 31,*	2016**	2015
Legally required contributions	\$ 686,879	606,222
Actual contributions	<u>686,879</u>	<u>606,222</u>
Contributions deficiency (excess)	-	-
District's covered employee payroll amount	\$ 16,106,059	15,256,625
Contributions as a percentage of covered employee-payroll	4.26 %	3.97 %

*The amounts presented above are as of the District's most recent fiscal year-end.

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Midland College District

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended August 31, 2016

Changes of Benefit Terms Include:

- There were no factors that significantly affect benefit trends.

Changes of Assumptions

There were no changes of assumptions for the year ended August 31, 2016.

SCHEDULES

Midland College District

Schedule A

SCHEDULE OF DETAILED OPERATING REVENUES

**Year Ended August 31, 2016
(With Memorandum Totals for the Year Ended August 31, 2015)**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2016 Total</u>	<u>2015 Memorandum Total</u>
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 3,861,068	-	3,861,068	-	3,861,068	3,368,258
Out-of-district resident tuition	4,165,104	-	4,165,104	-	4,165,104	3,805,039
Non-resident tuition	753,099	-	753,099	-	753,099	824,486
TPEG – credit (set aside) *	393,017	-	393,017	-	393,017	325,628
State-funded continuing education	902,613	-	902,613	-	902,613	1,192,919
TPEG – non-credit (set aside) *	57,453	-	57,453	-	57,453	76,144
Non-state funded continuing educational programs	<u>313,634</u>	-	<u>313,634</u>	-	<u>313,634</u>	<u>248,035</u>
Total tuition	<u>10,445,988</u>	-	<u>10,445,988</u>	-	<u>10,445,988</u>	<u>9,840,509</u>
Fees:						
General use fee	2,996,485	-	2,996,485	-	2,996,485	2,560,128
Lab fees	441,371	-	441,371	-	441,371	508,984
Distance learning fee	772,971	-	772,971	-	772,971	721,200
Other	<u>151,348</u>	-	<u>151,348</u>	-	<u>151,348</u>	<u>150,346</u>
Total fees	<u>4,362,175</u>	-	<u>4,362,175</u>	-	<u>4,362,175</u>	<u>3,940,658</u>
Scholarship allowances and discounts:						
Bad debt allowance	(127,063)	-	(127,063)	-	(127,063)	(88,106)
Scholarships	(2,231,815)	-	(2,231,815)	-	(2,231,815)	(1,936,443)
Remissions and exemptions - state	(345,528)	-	(345,528)	-	(345,528)	(264,175)
Remissions and exemptions - local	(483,146)	-	(483,146)	-	(483,146)	(360,374)
Title IV federal grants	(1,797,469)	-	(1,797,469)	-	(1,797,469)	(1,750,462)
TPEG awards	(339,231)	-	(339,231)	-	(339,231)	(80,129)
Other state grants	(66,620)	-	(66,620)	-	(66,620)	(69,852)
Other local grants	-	-	-	-	-	-
Total scholarship allowances	<u>(5,390,872)</u>	-	<u>(5,390,872)</u>	-	<u>(5,390,872)</u>	<u>(4,549,541)</u>
Total net tuition and fees	<u>9,417,291</u>	-	<u>9,417,291</u>	-	<u>9,417,291</u>	<u>9,231,626</u>

Midland College District

Schedule A

SCHEDULE OF DETAILED OPERATING REVENUES (CONTINUED)

**Year Ended August 31, 2016
(With Memorandum Totals for the Year Ended August 31, 2015)**

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2016 Total	2015 Memorandum Total
Additional operating revenues:						
Federal grants and contracts	48,783	958,530	1,007,312	-	1,007,312	1,459,586
State grants and contracts	-	542,856	542,856	-	542,856	556,875
Local grants and contracts	1,405,798	214,740	1,620,538	-	1,620,538	1,734,387
Non-governmental grants and contracts	1,116,400	362,974	1,479,374	18,900	1,498,274	876,017
Sales and services of educational activities	623,109	-	623,109	-	623,109	631,798
Investment income (program restricted)	134,128	-	134,128	7,441	141,569	141,006
General operating revenues	<u>377,318</u>	<u>371,901</u>	<u>749,219</u>	<u>-</u>	<u>749,219</u>	<u>602,605</u>
Total additional operating revenues	<u>3,705,536</u>	<u>2,451,001</u>	<u>6,156,536</u>	<u>26,341</u>	<u>6,182,877</u>	<u>6,002,274</u>
Auxiliary enterprises:						
Bookstore **	-	-	-	212,285	212,285	219,128
Residential/food service	-	-	-	1,148,673	1,148,673	1,191,539
Less discounts	-	-	-	(410,032)	(410,032)	(377,323)
Athletics	-	-	-	11,657	11,657	11,578
Other	-	-	-	86,250	86,250	107,816
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,048,833</u>	<u>1,048,833</u>	<u>1,152,738</u>
Total Operating Revenues (Exh. 2)	<u>\$ 13,122,827</u>	<u>2,451,001</u>	<u>15,573,827</u>	<u>1,075,174</u>	<u>16,649,001</u>	<u>16,386,638</u>

* In accordance with Education Code 56.033, \$450,469 and \$401,772 of tuition for years ended August 31, 2016 and 2015, respectively, was set aside for Texas Public Education grants (TPEG).

** The Midland College Bookstore is outsourced. Bookstore revenue is derived from lease payments. Accordingly, there are no scholarship allowances and discounts related to bookstore revenues.

Midland College District

Schedule B

SCHEDULE OF OPERATING EXPENSES
BY OBJECT

Year Ended August 31, 2016
(With Memorandum Totals for the Year Ended August 31, 2015)

	Operating Expenses				2016 Total	2015 Memorandum Total
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
Unrestricted - Educational Activities						
Instruction	\$ 12,863,431	-	3,152,736	1,398,291	17,414,458	17,098,034
Public service	1,183,415	-	133,501	254,476	1,571,392	1,331,087
Academic support	3,400,927	-	457,924	2,636,377	6,495,228	5,786,291
Student services	2,312,465	-	625,514	444,072	3,382,051	3,067,076
Institutional support	3,494,086	-	878,339	1,871,321	6,243,746	6,207,577
Operation and maintenance of plant	1,141,145	-	499,248	4,245,220	5,885,613	5,494,660
Scholarships and fellowships	-	-	-	26,410	26,410	14,032
Total Unrestricted Educational Activities	24,395,469	-	5,747,262	10,876,167	41,018,898	38,998,757
Restricted – Educational Activities						
Instruction	315,260	1,570,588	67,316	326,460	2,279,624	2,070,679
Public service	409,694	11,332	130,877	653,136	1,205,039	1,210,354
Academic support	-	227,984	-	25,860	253,844	299,063
Student services	45,286	365,462	13,014	261,546	685,308	741,361
Institutional support	-	457,955	-	-	457,955	397,380
Operation and maintenance of plant	-	41,630	-	40,934	82,564	79,510
Scholarships and fellowships	-	-	-	3,850,292 *	3,850,292	2,690,233
Total Restricted Educational Activities	770,240	2,674,951	211,207	5,158,228	8,814,626	7,488,580
Total Educational Activities	25,355,244	2,674,951	5,760,223	16,043,106	49,833,524	46,487,337
Auxiliary Enterprises	1,162,122	-	312,398	2,193,931 **	3,668,451	3,626,536
Depreciation Expense – Buildings and other real estate improvements	-	-	-	-	2,504,564	2,442,447
Depreciation Expense – Equipment and furniture	-	-	-	-	1,215,467	1,311,900
Total Operating Expenses	\$ 26,517,366	2,674,951	6,072,621	18,237,037	57,222,006 (Exhibit 2)	53,868,220 (Exhibit 2)

* Net of discounts of \$4,435,136

** Net of discounts of \$410,032

Midland College District

Schedule C

SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES

**Year Ended August 31, 2016
(With Memorandum Totals for the Year Ended August 31, 2015)**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2016 Total</u>	<u>2015 Memorandum Total</u>
NON-OPERATING REVENUES:					
State appropriations:					
Education and general state support	\$ 7,678,983	-	-	7,678,983	8,514,334
State group insurance	-	1,740,843	-	1,740,843	1,728,041
State retirement matching	-	934,108	-	934,108	622,896
Permian Basin Petroleum Museum	-	355,325	-	355,325	355,325
Total state appropriations	<u>7,678,983</u>	<u>3,030,276</u>	<u>-</u>	<u>10,709,259</u>	<u>11,220,596</u>
Maintenance ad valorem taxes	24,490,252	-	-	24,490,252	22,447,041
Debt service ad valorem taxes	-	2,968,141	-	2,968,141	3,006,637
Federal Revenue, non-operating	-	4,789,844	-	4,789,844	4,290,359
Gifts	-	1,743,775	-	1,743,775	2,297,273
Investment income	184,610	667	-	185,277	165,178
Contributions in aid of construction	-	-	-	-	925
Additions (deductions) to permanent endowments	-	34,255	-	34,255	5,262
Total non-operating revenues	<u>32,353,845</u>	<u>12,566,958</u>	<u>-</u>	<u>44,920,803</u>	<u>43,433,271</u>
NON-OPERATING EXPENSES:					
Interest on capital related debt	-	(1,521,111)	-	(1,521,111)	(1,527,185)
Loss on disposal of capital assets	(65,527)	-	-	(65,527)	(4,257)
Total non-operating expense	<u>(65,527)</u>	<u>(1,521,111)</u>	<u>-</u>	<u>(1,586,638)</u>	<u>(1,531,442)</u>
Net non-operating revenues	\$ <u>32,288,318</u>	<u>11,045,847</u>	<u>-</u>	<u>43,334,165</u> (Exhibit 2)	<u>41,901,829</u> (Exhibit 2)

Midland College District

Schedule D

SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY

Year Ended August 31, 2016
(With Memorandum Totals for the Year Ended August 31, 2015)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 16,015,357	-	-	-	16,015,357	16,015,357	-
Restricted	-	5,087,843	-	-	5,087,843	5,087,843	-
Auxiliary enterprises	1,186,415	-	-	-	1,186,415	1,186,415	-
Endowment:							
Quasi:							
Unrestricted	-	-	-	-	-	-	-
Endowment:							
True	-	-	5,296,193	-	5,296,193	-	5,296,193
Plant:							
Debt service	-	209,204	-	-	209,204	-	209,204
Investment in plant	-	-	-	64,292,676	64,292,676	-	64,292,676
Total Net Position August 31, 2016	17,201,772	5,297,047	5,296,193	64,292,676	92,087,688 (Exhibit 1)	22,289,615	69,798,073
Total Net Position August 31, 2015	14,017,331	5,194,589	5,306,577	64,808,031	89,326,528 (Exhibit 1)	19,851,333	69,475,195
Net Increase in Net Position	\$ 3,184,441	102,458	(10,384)	(515,355)	2,761,160 (Exhibit 2)	2,438,282	322,878

Midland College District

Schedule E

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2016

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Document/ Pass-Through Grantor's Number	Pass-Through Disbursement and Expenditures
<u>U.S. Department of Education</u>			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Education Opportunity Grant	84.007	P007A154070	\$ 55,932
Federal College Work-Study Program	84.033	P033A154070	81,063
Federal Pell Grant Program	84.063	P063P153245	4,652,849
Federal Direct Student Loans	84.268	P268K163245	1,087,485
TRIO Cluster:			
Student Support Services	84.042A	P042A100039	12,299
Upward Bound	84.047A	P047A130770	246,066
Pass-Through From:			
Odessa College			
Adult Basic Education – Federal/Corrections	84.002A	1114AELA02	30,147
Adult Basic Education – Federal/Corrections	84.002A	1114AELB02	218,540
Adult Basic Education – Federal/Corrections	84.002A	1116AEL004	16,518
El Civics	84.002A	1114AELB02	37,159
El Civics	84.002A	1116AEL004	2,012
Subtotal CFDA 84.002A			<u>304,376</u>
Sul Ross State University			
Title V Cooperative Hispanic Institutions	84.031S	P031S100067	6,835
Texas Higher Education Coordinating Board			
Carl Perkins – Voc. Ed. – Basic	84.048	164243	<u>128,987</u>
Total U.S. Department of Education			<u>6,575,892</u>
<u>U.S. Department of Health and Human Services</u>			
Pass-Through From:			
Texas Tech University			
Area Health Centers Point of Service Maintenance & Enhancement	93.107	U77HP16497	94,873
Odessa College			
Adult Basic Education – Federal TANF	93.558	1114AELB02	17,957
Permian Basin Workforce Development Board			
PBWDB Child Care Scholarship	93.596	128-14	18,768
PBWDB Child Care Conference	93.575	CC2016-2	11,871
Area Health Education Center of Plains			
Rural HIT Workforce	93.912	R01RH26267	<u>79,352</u>
Total Department of Health and Human Services			<u>222,821</u>

Midland College District

Schedule E

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Year Ended August 31, 2016

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Document/ Pass-Through Grantor's Number	Pass-Through Disbursement and Expenditures
<u>U.S. Department of Labor</u>			
Development Training			
Pass-Through From:			
Permian Basin Workforce Development Board			
MC Scholarship Agreement	17.207	C126-15	\$ 14,541
MC Industry Scholarship Agreement	17.258	127-15	25,150
MC Energy Consortium Scholarship Agreement	17.207	WTEC2016-01	<u>6,987</u>
Total U.S. Department of Labor			<u>46,678</u>
<u>National Science Foundation</u>			
Pass-Through From:			
University of Texas System			
LSAMP	47.076	HRD-1202008	35,550
Texas Tech University	47.076	21P344-02	<u>3,701</u>
Total National Science Foundation			<u>39,251</u>
Total Federal Financial Assistance			\$ <u>6,884,642</u>
<i>Note 1: Federal Assistance Reconciliation</i>			
Federal Grants and Contracts revenue – per Schedule A			\$ 958,530
Add: Indirect/Administrative Cost Recoveries-per Schedule A			48,783
Add: Non-Operating Federal Revenue from Schedule C			<u>4,789,844</u>
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Position			<u>5,797,157</u>
Reconciling Item:			
Add: Federal Direct Student Loans			<u>1,087,485</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards			\$ <u>6,884,642</u>

Note 2: Significant Accounting Policies used in Preparing the Schedule.

The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the District for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the general purpose financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Midland College District

Schedule F

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended August 31, 2016

State Grantor/Pass-Through Grantor/ Program Title	Grant/Contract Number	Pass-Through Disbursement and Expenditures
Direct Programs:		
Texas Higher Education Coordinating Board IP-AES Program		\$ 26,905
Texas College Work Study		15,140
Texas Education Opportunity Grant		150,419
Subtotal Texas Higher Education Coordinating Board		192,464
Pass-Through From:		
Texas Tech University Area Health Education Center	04183-11	214,995
Odessa College Adult Basic Education	1114AELB02	54,091
University of Texas Health Science Center of Fort Worth Primary Care Innovation Program	14591	10,037
University of Texas Health Science Center Comprehensive Texas School Ready Project	TSR Project 2015-17	71,269
Subtotal – Pass Through		350,392
Total State Financial Assistance		\$ 542,856

Note 1: State Assistance Reconciliation

Total State Financial Assistance	\$ 542,856
Total State Revenues per Schedule A	\$ 542,856

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the District for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

SINGLE AUDIT REPORTS



JOHNSON MILLER & CO., CPA's PC

Certified Public Accountants

A Professional Corporation

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

The Board of Trustees
Midland College District
Midland, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Midland College 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 December 8, 2016.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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*.

We have performed tests designed to verify the District's compliance with the requirements of the Texas Public Funds Investment Act. During the year ended August 31, 2016, no instances of noncompliance were noted.

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.

This report is intended solely for the information and use of management, the District's trustees, audit committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Johnson Miller & Co., CPA's PC". The signature is written in a cursive, flowing style.

Midland, Texas
December 8, 2016



JOHNSON MILLER & CO., CPA's PC

Certified Public Accountants

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**Independent Auditors' Report on Compliance for
Each Major Program and Internal Control Over
Compliance Required by the Uniform Guidance**

The Board of Trustees
Midland College District
Midland, Texas

Report on Compliance for Each Major Federal Program

We have audited Midland College District (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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



Midland, Texas
December 8, 2016

Midland College District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

August 31, 2016

The Board of Trustees
Midland College District
Midland, Texas

SECTION I - SUMMARY OF AUDITORS' RESULTS

<u>Type of Auditor's Report issued</u>	Unmodified
Internal control over financial reporting:	
Material Weaknesses Identified?	No
Significant Deficiencies Identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No
<u>Federal and State Awards</u>	
Internal control over major programs:	
Material Weaknesses Identified?	No
Significant Deficiencies Identified that are not considered to be material weaknesses?	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 2 CFR 200.516 (a)	No
Any questioned costs?	No

Midland College District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

August 31, 2016

Identification of Major Programs:

CFDA Numbers

Name of Federal Program or Cluster

84.007

Student Financial Aid Cluster:

Federal Supplemental Education Opportunity Grant

84.033

Federal College Work-Study Program

84.063

Federal Pell Grant Program

84.268

Federal Direct Student Loans

Dollar threshold used to distinguish between type A and type B programs:

Federal programs threshold \$750,000;

Auditee qualified as low-risk auditee?

Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL OR STATE AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.

August 31, 2016

No matters were reported.

August 31, 2015

No matters were reported.

STATISTICAL SUPPLEMENT

**Midland College District
Statistical Supplement 1
Net Position by Component
Fiscal Years 2006-2015
(unaudited)**

	2016	2015	2014	2013 (as restated)	2012	2011	2010	2009	2008	2007
Invested in capital assets, net of related debt	\$ 64,293	\$ 64,808	61,459	59,087	59,196	56,980	55,616	51,224	45,506	41,441
Restricted - expendable	5,297	5,194	4,667	5,272	5,850	7,485	4,594	4,702	7,008	6,680
Restricted - nonexpendable	5,296	5,307	5,346	5,412	5,374	5,016	4,793	4,644	4,400	3,965
Unrestricted	17,202	14,017	20,697	19,190	15,477	12,180	10,866	10,735	10,634	9,275
Total primary government net position	\$ 92,088	\$ 89,326	92,169	88,961	85,897	81,661	75,869	71,305	67,548	61,361

Midland College District
Statistical Supplement 2
Revenues by Source
Fiscal Years 2006-2015
(unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Tuition and Fees (net of discounts)	\$ 9,417	\$ 9,232	9,778	10,272	10,103	9,595	9,365	8,024	7,522	7,603
Federal Grants and Contracts	1,007	1,459	1,532	2,384	2,693	3,787	4,844	3,202	2,013	2,690
State Grants and Contracts	543	557	881	614	517	653	565	271	278	183
Local Grants and Contracts	1,621	1,734	1,758	1,517	825	817	894	829	861	736
Non-Governmental Grants and Contracts	1,498	876	1,035	915	845	885	578	722	1,073	699
Sales and services of educational activities	623	632	510	430	432	399	283	194	200	217
Investment income-program restricted	142	141	225	12	203	277	339	499	615	624
Auxiliary enterprises (net of discounts)	1,049	1,153	1,180	1,192	1,251	1,042	1,132	1,040	1,030	942
Other operating revenues	749	603	507	607	586	499	694	737	673	698
Total Operating Revenues	16,649	16,387	17,406	17,943	17,455	17,954	18,694	15,518	14,265	14,392
State Appropriations	10,709	11,221	11,106	10,324	10,397	12,687	13,206	13,862	13,656	13,498
Ad Valorem Taxes	27,458	25,453	23,785	22,757	21,180	20,004	18,936	17,743	16,676	15,419
Federal Revenue, non-operating	4,790	4,290	4,017	4,153	5,599	6,850	6,123	3,873	3,780	3,849
Gifts	1,744	2,297	1,491	1,798	1,767	2,083	1,802	1,622	1,505	1,443
Investment income	185	165	87	24	26	33	68	334	1,389	2,456
Contributions in aid of construction	-	1	21	27	735	3,044	931	1,572	2,313	731
Gain on disposal of fixed assets	-	-	18	165	70	-	16	-	-	-
Additions to permanent endowments	34	5	18	244	357	161	29	103	348	145
Other non-operating revenues	-	-	-	-	-	-	462	4,031	487	-
Total Non-Operating Revenues	44,920	43,432	40,543	39,492	40,131	44,862	41,573	43,140	40,154	37,541
Total Revenues	\$ 61,569	\$ 59,819	57,949	57,435	57,586	62,816	60,267	58,658	54,419	51,933

**Midland College District
Statistical Supplement 3
Program Expenses by Function
Fiscal Years 2006-2015
(unaudited)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
				(as restated)						
Instruction	\$ 20,385	\$ 19,169	18,531	18,254	18,336	19,866	19,525	18,456	17,676	17,266
Public service	2,063	2,542	2,593	2,405	2,112	2,475	2,551	2,316	1,887	2,242
Academic support	6,912	6,085	5,785	6,148	6,311	6,197	6,166	5,572	5,014	4,834
Student services	3,927	3,808	3,777	3,581	3,442	3,374	3,405	3,342	3,077	2,948
Institutional support	6,702	6,605	6,411	6,031	5,234	5,214	5,195	5,040	4,630	4,292
Operation and maintenance of plant	5,968	5,574	5,848	5,494	5,421	5,778	5,594	4,835	5,173	4,000
Scholarships & fellowships(net of discounts)	3,877	2,704	2,908	3,230	3,718	5,921	5,396	3,484	3,498	3,296
Auxiliary enterprises (net of discounts)	3,668	3,627	3,488	3,320	3,027	2,485	2,401	2,427	2,482	1,929
Depreciation	3,720	3,754	3,758	3,803	3,724	3,526	2,912	2,545	1,856	1,680
Total Operating Expenses	57,222	53,868	53,099	52,266	51,325	54,836	53,145	48,017	45,293	42,487
Interest on capital related debt	1,521	1,527	1,641	1,696	1,994	2,132	2,033	1,913	1,919	2,017
Loss on disposal of fixed assets	65	4	-	-	-	16	-	32	28	13
Other non-operating expenses	-	-	-	-	31	42	526	4,938	992	63
Total Non-Operating Expenses	1,586	1,531	1,641	1,696	2,025	2,190	2,559	6,883	2,939	2,093
Total Expenses	\$ 58,808	\$ 55,399	54,740	53,962	53,350	57,026	55,704	54,900	48,232	44,580

**Midland College District
Statistical Supplement 4
Tuition and Fees
Last Fifteen Academic Years
(unaudited)**

Resident Fees per Semester Credit Hour

Academic Year (Fall)	In-District Tuition	Out-of-District Tuition	General Use Fee	Cost for 12 SCH In-District	Cost for 12 SCH Out-of-District	Increase from Prior Year In-District	Increase from Prior Year Out-of-District
2015-16	\$ 58	\$ 108	\$ 24	\$ 984	\$ 1,584	5.13%	5.60%
2014-15	56	103	22	936	1,500	4.00%	2.46%
2013-14	56	103	19	900	1,464	4.17%	6.09%
2012-13	53	96	19	864	1,380	0.00%	8.49%
2011-12	53	87	19	864	1,272	14.29%	21.84%
2010-11	49	73	14	756	1,044	5.00%	6.10%
2009-10	46	68	14	720	984	5.26%	6.49%
2008-09	43	63	14	684	924	7.55%	18.46%
2007-08	43	55	10	636	780	-	-
2006-07	43	55	10	636	780	17.78%	14.04%
2005-06	37	49	8	540	684	-	14.00%
2004-05	37	42	8	540	600	4.65%	4.17%
2003-04	36	41	7	516	576	16.22%	23.08%
2002-03	31	33	6	444	468	-	-
2001-02	31	33	6	444	468	8.82%	8.33%

Non-Resident Fees per Semester Credit Hour

Academic Year (Fall)	Non-Resident Tuition Out of State	Non-Resident Tuition International	General Use Fee	Cost for 12 SCH Out of State	Cost for 12 SCH International	Increase from Prior Year Out of State	Increase from Prior Year International
2015-16	\$ 148	\$ 148	\$ 24	\$ 2,064	\$ 2,064	4.88%	4.88%
2014-15	142	142	22	1,968	1,968	1.86%	1.86%
2013-14	142	142	19	1,932	1,932	4.55%	4.55%
2012-13	135	135	19	1,848	1,848	6.21%	6.21%
2011-12	126	126	19	1,740	1,740	20.83%	20.83%
2010-11	106	106	14	1,440	1,440	4.35%	4.35%
2009-10	101	101	14	1,380	1,380	6.48%	6.48%
2008-09	94	94	14	1,296	1,296	14.89%	14.89%
2007-08	84	84	10	1,128	1,128	-	-
2006-07	84	84	10	1,128	1,128	9.30%	9.30%
2005-06	78	78	8	1,032	1,032	2.38%	2.38%
2004-05	76	76	8	1,008	1,008	23.53%	23.53%
2003-04	61	61	7	816	816	15.25%	15.25%
2002-03	53	53	6	708	708	-	-
2001-02	53	53	6	708	708	5.36%	5.36%

Note: In addition students may incur course related fees such as laboratory fees, testing fees and certification fees.

**Midland College District
Statistical Supplement 5
Assessed Value and Taxable Assessed Value of Property
Last Fifteen Years**

Fiscal Year	(amounts expressed in thousands)			Ratio of Taxable Assessed Value to Assessed Value	thousands	Direct Rate		
	Assessed Valuation of Property	Less: Exemptions	Taxable Assessed Value (TAV)		Total Taxes Assessed	Maintenance & Operations (a)	Debt Service (a)	Total (a)
2015-16	\$ 22,806,351	\$ 1,450,393	\$ 21,355,958	93.64%	\$ 26,612	\$ 0.112160	\$ 0.013770	\$ 0.125930
2014-15	21,632,033	1,308,136	20,323,897	93.95%	25,281	0.109700	0.014700	0.124400
2013-14	18,998,198	1,121,399	17,876,799	94.10%	23,805	0.117200	0.016000	0.133200
2012-13	16,560,425	902,788	15,657,637	94.55%	22,575	0.117200	0.017790	0.134990
2011-12	13,392,179	894,062	12,498,117	93.32%	20,979	0.143800	0.024100	0.167900
2010-11	12,792,106	1,070,270	11,721,836	91.63%	19,915	0.143940	0.025960	0.169900
2009-10	12,219,385	1,197,661	11,021,724	90.20%	18,949	0.144600	0.027328	0.171928
2008-09	11,660,357	1,293,329	10,367,028	88.91%	17,925	0.144600	0.028310	0.172910
2007-08	9,672,151	977,526	8,694,625	89.89%	16,617	0.157154	0.033966	0.191120
2006-07	7,985,268	536,613	7,448,655	93.28%	15,359	0.167481	0.038719	0.206200
2005-06	6,772,061	462,783	6,309,278	93.17%	14,177	0.179400	0.045300	0.224700
2004-05	6,120,653	461,916	5,658,737	92.45%	10,786	0.190600	-	0.190600
2003-04	5,668,701	456,955	5,211,746	91.94%	9,933	0.185200	0.005400	0.190600
2002-03	5,515,729	443,637	5,072,092	91.96%	9,667	0.185200	0.005400	0.190600
2001-02	5,580,072	412,052	5,168,020	92.62%	9,443	0.177800	0.005400	0.183200

Source: Local Appraisal District

Notes: Property is assessed at full market value.

(a) per \$100 Taxable Assessed Valuation

**Midland College District
Statistical Supplement 6
State Appropriation per FTSE and Contact Hours
Last Fifteen Fiscal Years
(unaudited)**

Fiscal Year	State Appropriation (000's)	Appropriation per FTSE		Appropriation per Contact Hour			
		FTSE (1)	State Appropriation per FTSE	Academic Contact Hours (a) (000's)	Voc/Tech Contact Hours (a,b) (000's)	Total Contact Hours (000's)	State Appropriation per Contact Hour
2015-16	\$ 7,679	3,742	\$ 2,052	1,684	767	2,451	\$ 3.13
2014-15	8,514	3,742	2,275	1,594	696	2,290	3.72
2013-14	8,514	3,807	2,236	1,700	819	2,519	3.38
2012-13	8,206	4,111	1,996	1,829	899	2,728	3.01
2011-12	8,526	4,289	1,988	1,874	962	2,836	3.01
2010-11	8,879	4,518	1,965	1,966	1,062	3,028	2.93
2009-10	9,340	4,348	2,148	1,898	1,032	2,930	3.19
2008-09	9,877	3,989	2,476	1,742	939	2,681	3.68
2007-08	9,877	3,988	2,477	1,673	973	2,646	3.73
2006-07	9,371	4,041	2,319	1,715	944	2,659	3.52
2005-06	9,371	4,012	2,336	1,691	936	2,627	3.57
2004-05	8,039	4,031	1,994	1,682	943	2,625	3.06
2003-04	8,079	3,967	2,037	1,671	885	2,556	3.16
2002-03	7,870	3,686	2,135	1,539	853	2,392	3.29
2001-02	8,499	3,607	2,356	1,485	875	2,360	3.60
2000-01	8,102	3,395	2,386	1,390	820	2,210	3.67

(a) Source CBM001
(b) Source CBM00A

Notes:

(1) FTSE is calculated by the following formula:

$$\frac{(\text{Total Semester Hours Taken by Credit Students (a)})}{30} + \frac{(\text{Total Contact Hours Taken by CE Students(b)})}{900}$$

	Voc-Tech Contact Hrs (000's)		
	Credit	CE	Total
15-16	561	206	767
14-15	486	210	696
13-14	564	255	819
12-13	631	268	899
11-12	750	212	962
10-11	863	199	1062
09-10	879	153	1032
08-09	782	157	939
07-08	779	194	973
06-07	740	204	944
05-06	717	219	936
04-05	716	227	943
03-04	650	235	885
02-03	660	193	853
01-02	620	255	875
00-01	633	187	820

**Midland College District
Statistical Supplement 7
Faculty, Staff, and Administrators Statistics
Last Fifteen Academic Years
(unaudited)**

	Fiscal Year															
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Faculty																
Full-Time	133	142	145	147	145	135	154	155	141	134	129	119	116	110	109	100
Part-Time	157	124	121	148	162	195	184	160	156	135	120	135	125	129	134	134
Total	290	266	266	295	307	330	338	315	297	269	249	254	241	239	243	234
Percent																
Full-Time	45.9%	53.4%	54.5%	49.8%	47.2%	40.9%	45.6%	49.2%	47.5%	49.8%	51.8%	46.9%	48.1%	46.0%	44.9%	42.7%
Part-Time	54.1%	46.6%	45.5%	50.2%	52.8%	59.1%	54.4%	50.8%	52.5%	50.2%	48.2%	53.1%	51.9%	54.0%	55.1%	57.3%
Staff and Administrators																
Full-Time	276	260	262	252	263	264	254	256	249	239	241	237	226	209	206	181
Part-Time	157	301	315	327	328	258	357	320	375	358	369	354	356	361	342	335
Total	433	561	577	579	591	522	611	576	624	597	610	591	582	570	548	516
Percent																
Full-Time	63.7%	46.3%	45.4%	43.5%	44.5%	50.6%	41.6%	44.4%	39.9%	40.0%	39.5%	40.1%	38.8%	36.7%	37.6%	35.1%
Part-Time	36.3%	53.7%	54.6%	56.5%	55.5%	49.4%	58.4%	55.6%	60.1%	60.0%	60.5%	59.9%	61.2%	63.3%	62.4%	64.9%
Students per Full-Time Faculty	40.9	32.5	36.1	37.6	41.9	47.1	40.5	37.3	40.7	43.4	43.3	46.5	46.5	45.8	46.4	48.4
Students per Full-Time Staff Member	19.7	17.8	20.0	21.9	23.1	24.1	24.5	22.6	23.0	24.3	23.2	23.3	23.9	24.1	24.6	26.8
Average Annual Faculty Salary	\$61,444	\$61,064	\$58,940	\$57,463	\$52,169	55,834	55,216	54,623	52,021	50,636	49,335	49,446	47,783	47,498	47,196	44,264
Notes:																
Fall Headcount	5439	4618	5236	5531	6071	6358	6230	5784	5733	5819	5589	5531	5392	5041	5060	4842

**Midland College District
Statistical Supplement 8
Schedule of Capital Asset Information
Fiscal Years 2007 to 2016**

	Fiscal Year									
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Academic buildings	22	22	22	22	22	22	22	20	19	19
Square footage (in thousands)	520	520	520	520	520	520	520	494	489	410
Libraries	1	1	1	1	1	1	1	1	1	1
Square footage (in thousands)	52	52	52	52	52	52	52	52	50	50
Administrative and support buildings	5	5	5	5	5	5	4	4	4	4
Square footage (in thousands)	70	70	70	70	70	70	58	58	58	58
Dormitories	3	3	3	3	3	3	3	3	3	3
Square footage (in thousands)	91	91	91	91	91	91	91	91	91	91
Number of Beds	286	286	286	286	286	286	286	286	286	286
Apartments	10	10	10	10	10	10	10	10	10	10
Square footage (in thousands)	12	12	12	12	12	12	12	12	12	12
Number of beds	20	20	20	20	20	20	20	20	20	20
Dining Facilities	1	1	1	1	1	1	1	1	1	1
Square footage (in thousands)	11	11	11	11	11	11	11	11	11	11
Athletic Facilities	6	6	6	6	6	6	5	5	3	3
Square footage (in thousands)	136	136	136	136	136	136	118	118	117	117
Multipurpose Center	1	1	1	1	1	1	1	1	1	1
Gymnasiums	2	2	2	2	2	2	1	1	1	1
Softball Dressing Facility	1	1	1	1	1	1	1	1		
Baseball Practice Facility	1	1	1	1	1	1	1	1		
Tennis Pro Shop	1	1	1	1	1	1	1	1	1	1
Plant facilities	2	2	2	2	2	2	2	2	2	2
Square footage (in thousands)	26	26	26	26	26	26	26	26	26	26
Chapel	1	1	1	1	1	1	1	1	1	1
Square footage (in thousands)	2	2	2	2	2	2	2	2	2	2
Childrens Center	1	1	1	1	1	1	1	1	1	1
Square footage (in thousands)	11	11	11	11	11	11	11	11	6	6
Transportation										
Cars	11	9	12	9	9	9	4	3	3	6
Light Trucks/Vans	20	20	25	22	22	22	21	19	24	22
Heavy trucks	8	8	6	5	4	4	4	4	4	4
Buses	8	8	8	7	7	7	7	7	6	6

**Midland College District
Statistical Supplement 9
Head Count Enrollment Trend
Credit Hour Students Only
(Unaudited)**

Fiscal Year	Fall	Spring	Sum I	Sum II	Duplicated Total	Unduplicated Total
2015-16	5,439	7,136	3,727	2,353	18,655	10,183
2014-15	4,618	6,527	3,533	2,422	17,100	9,512
2013-14	5,236	6,276	3,220	2,310	17,042	9,522
2012-13	5,531	6,826	3,664	2,656	18,677	10,616
2011-12	6,071	6,976	3,572	2,710	19,329	10,856
2010-11	6,358	7,316	3,507	2,682	19,863	11,131
2009-10	6,230	6,803	3,080	2,899	19,012	10,726
2008-09	5,784	6,321	2,530	2,546	17,181	9,608
2007-08	5,733	6,288	2,381	2,411	16,813	9,453
2006-07	5,819	6,076	2,158	2,184	16,237	9,039
2005-06	5,589	5,923	2,356	1,974	15,842	8,591
2004-05	5,531	5,797	1,881	1,548	14,757	8,456
2003-04	5,392	5,666	1,974	1,410	14,442	8,086
2002-03	5,041	5,410	1,707	1,380	13,538	7,606
2001-02	5,065	5,109	1,596	1,249	13,019	6,948
2000-01	4,842	4,954	1,439	1,042	12,277	6,870
1999-00	4,733	4,749	1,530	797	11,809	6,656
1998-99	4,576	4,529	1,637	832	11,574	6,583

Data Source: CBM001