

Midland County Utility District

Annual Financial Report

For the Fiscal Year Ended September 30, 2021



Midland County Utility District
 Annual Financial Report
 For the Fiscal Year Ended September 30, 2021
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Introductory Section

Annual Filing Affidavit

THE STATE OF TEXAS }
COUNTY OF Midland }

I, Shelton Viney of the Midland County Utility District (the District) hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Supervisors on the 17 day of January, 2022, its annual audit report for the fiscal period ended September 30, 2021 and that copies of the annual audit report have been filed with the District's office, located at 110 W. Louisiana, Suite 312, Midland, Texas 79701-6530.

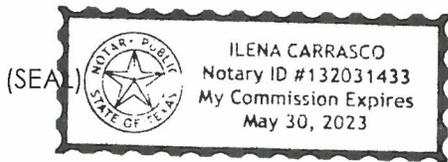
The filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality to satisfy the annual filing of Texas Water Code Section 49.194.

Date: January 17, 2022

By: Shelton Viney Board President

Shelton Viney, Board President
(Typed Name & Title of District Representative)

Sworn to and subscribed to before me this 17th day of January, 2022.



Ilena Carrasco
(Signature of Notary)

My Commission Expires on: May 30, 2023.

Notary Public in the State of Texas

Financial Section

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Independent Auditor's Report

The Members of the Board of Directors of
Midland County Utility District
Midland, Texas

We have audited the accompanying financial statements of the governmental activities and the general fund, the only major fund of the Midland County Utility District (the District) as of and for the year ended September 30, 2021, 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 Basic Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the general fund, the only major fund of the Midland County Utility District as of September 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The Texas Supplementary Information listed in the table of contents is required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management. The accompanying supplementary information, excluding the portion marked "Unaudited," for which we express no opinion, has been derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information (other than information marked as "Unaudited"), is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Members of the Board of Directors of
Midland County Utility District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2022 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL

Midland, Texas
January 17, 2022

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Basic Financial Statements

Midland County Utility District

Statement of Net Position and Governmental Fund Balance Sheet

September 30, 2021

	<u>Governmental Fund Balance Sheet</u>		<u>Governmental Activities</u>
	<u>General</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 3,488,233	-	\$ 3,488,233
Ad valorem tax receivables, net of allowance of \$39,685	31,418	-	31,418
Capital assets, net	<u>-</u>	<u>508,854</u>	<u>508,854</u>
Total assets	<u>\$ 3,519,651</u>	<u>\$ 508,854</u>	<u>\$ 4,028,505</u>
LIABILITIES			
Accounts payable	\$ 29,967	-	\$ 29,967
Advance from related party	<u>55,078</u>	<u>-</u>	<u>55,078</u>
Total liabilities	85,045	-	85,045
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	<u>21,477</u>	<u>(21,477)</u>	<u>-</u>
Total deferred inflows of resources	21,477	(21,477)	-
FUND BALANCES/NET POSITION			
Fund Balances:			
Unassigned	<u>3,413,129</u>	<u>(3,413,129)</u>	<u>-</u>
Total fund balances	<u>3,413,129</u>	<u>(3,413,129)</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,519,651</u>		
NET POSITION			
Net investment in capital assets		508,854	508,854
Unrestricted		<u>3,434,606</u>	<u>3,434,606</u>
TOTAL NET POSITION		<u>\$ 3,943,460</u>	<u>\$ 3,943,460</u>

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

Midland County Utility District

Statement of Activities and Governmental Fund Revenues,
Expenditures and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2021

	Governmental Fund Revenues, Expenditures and Changes in Fund Balances		Governmental Activities
	General	Adjustments (Note 2)	Statement of Activities
REVENUES			
General revenues:			
Ad valorem tax revenue	\$ 1,009,141	(872)	\$ 1,008,269
Tax penalties and interest	15,200	-	15,200
Interest income	515	-	515
	<u>1,024,856</u>	<u>(872)</u>	<u>1,023,984</u>
Total revenues	1,024,856	(872)	1,023,984
EXPENDITURES/EXPENSES			
Bookkeeping services	18,000	-	18,000
Insurance fees	821	-	821
Legal services	49,309	-	49,309
Management fees	58,884	-	58,884
Appraisal and collection services	5,142	-	5,142
Audit fees	22,999	-	22,999
Engineering fees	14,402	(14,402)	-
	<u>169,557</u>	<u>(14,402)</u>	<u>155,155</u>
Total expenditures/expenses	169,557	(14,402)	155,155
Excess of revenues over expenditures/ change in net position	855,299	13,530	868,829
Fund Balance/Net Position - beginning balance	<u>2,557,830</u>	<u>516,801</u>	<u>3,074,631</u>
FUND BALANCE/NET POSITION - ENDING	<u>\$ 3,413,129</u>	<u>\$ 530,331</u>	<u>\$ 3,943,460</u>

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

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Midland County Utility District

Notes to the Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

The financial statements of the Midland County Utility District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Creation of District

Midland County Utility District (the District) was created in June 17, 2011 by the House Bill. No. 3111 under Subtitle I, title 6 by Special District Local Law Code, Section 59 of the Constitution of the State of Texas and the Texas Water Code Chapters 49 and 53. The District operates under the Statutes of Texas. The District was created for purpose of supplying of water for municipal, domestic, commercial and other beneficial uses, the collection, transportation, treatment and disposal of waste, and the gathering within the District.

B. Reporting Entity

The District has adopted GASB Statements No. 14, *The Financial Reporting Entity*, No. 39, *Determining Whether Certain Organizations Are Component Units*, and No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. In accordance with these statements, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units that are legally separate for which the District is considered financially accountable.

The District is governed by the Board of Directors, which has the authority to make decisions, appoint administrators and managers, and significantly influence operations. As required by GAAP, these financial statements present the activities of the District, which is considered to be the primary government as well as the reporting entity.

C. Financial Statement Presentation

The District is considered a special-purpose government engaged in a single governmental program. In accordance with GASB 34, the District has elected to combine its government-wide and fund financial statements into one set of financial statements with a reconciliation of the individual line items in a separate column on the financial statements. The financial statements are referred to as the "Statement of Net Position and Governmental Funds Balance Sheet" and the "Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances."

The government-wide financial statement columns are labeled "Statement of Net Position" and "Statement of Activities". They report financial information for the District as a whole.

The governmental fund financial statement columns are provided for each of the individual governmental fund, with a total column for all fund. The financial statements include an adjustment column which reconciles the governmental fund financial statements to the government-wide financial statements.

Midland County Utility District

Notes to the Basic Financial Statements

D. Measurement Focus and Basis of Accounting

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America.

The government-wide financial statement columns are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the elimination of activity between or within funds. Property tax revenues are recognized in the year for which they are levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statement columns are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, except for principal and interest on long-term debt, which are recognized when due.

E. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets and deferred outflows are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities and deferred inflows are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows and liabilities and deferred inflows is reported as a fund balance.

The District reports the following major governmental fund:

The *general fund* is used to account for all financial resources of the District except for those required to be accounted for in another fund. The general fund is the general operating fund of the District.

F. Governmental Funds

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The *general fund* is used to account for all financial resources of the District except for those required to be accounted for in another fund. The general fund is the general operating fund of the District.

Midland County Utility District

Notes to the Basic Financial Statements

G. Governmental Fund Balances

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Non-Spendable fund balance. Assets that will never convert to cash, such as inventory and prepaid items. At September 30, 2021, the District had no non-spendable fund balance.

Restricted fund balance. The portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions imposed by parties outside the District. As of September 30, 2021, the District had no restricted fund balance.

Committed fund balance. The portion of fund balance that reflects resources that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. At September 30, 2021, the District had no committed fund balance.

Assigned fund balance. The portion of fund balance that reflects resources intended for a specific purpose. Intent is expressed or authorized by the Board of Directors. The District had no assigned fund balance at September 30, 2021.

Unassigned fund balance. The portion of fund balances in excess of non-spendable, restricted, committed, and assigned. This classification includes the residual fund balance for the General Fund.

Spending Prioritization in Using Available Resources – when restricted (i.e. committed, assigned, and unassigned) resources are available to be used for the same purpose, the District considers the restricted resources to be expended first. When all categories of unrestricted fund balance are available, the flow assumption is as follows: the committed resources get expended first, the assigned resources get expended second, and the unassigned resources get expended last.

H. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost based on the corresponding asset class. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

I. Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of the taxable year. Taxes are levied on or about October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

In the governmental fund financial statement columns, property tax revenues are recognized when they become available. The amount available includes those property tax receivables expected to be collected within 60 days after the fiscal year end.

In the government-wide financial statement columns, property tax revenues are recorded when due regardless of when cash is received.

Midland County Utility District
 Notes to the Basic Financial Statements

J. Annual Budget

The District prepares an operating budget which includes proposed expenditures and the means of financing them for the upcoming year. Prior to September 30, the budget is adopted by passage by the Board of Directors. The annual operating budget is adopted on a basis consistent with GAAP. Any subsequent amendment to the budget must be approved by the Board of Directors. All unused budget authorizations lapse at year end.

K. Estimates

The District uses estimates and assumptions in preparing the basic financial statements. Those estimates and assumptions affect the reported assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Note 2. Reconciliation of Fund Statements to Government-Wide Statements

TOTAL FUND BALANCE GOVERNMENTAL FUND	\$ 3,413,129
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Amounts reported in governmental activities in the statement of net position are different because:

Receivables not available to pay for current period expenditures are deferred in the funds.	21,477
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Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds.	508,854
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TOTAL NET POSITION- GOVERNMENTAL ACTIVITIES	\$ 3,943,460
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TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$ 855,299
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Amounts reported for governmental activities in the statement of activities are different because:

Revenue from property taxes is deferred in the fund financial statements until it is considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible accounts, in the government-wide financial statements.	(872)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized.	14,402
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CHANGES IN NET POSITION- GOVERNMENTAL ACTIVITIES	\$ 868,829
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Midland County Utility District
Notes to the Basic Financial Statements

Note 3. Cash

Cash and cash equivalents are considered to be cash on hand, demand deposits, money market funds, and investments with a maturity of three months or less from the date of acquisition.

At September 30, 2021, the carrying amount of the District’s cash in banks, including funds deposited in the Demand Deposit Marketplace Program provided by the primary depository institution, was \$3,488,233, all of which was unrestricted. At year end, the District’s deposits does not exceed the total of FDIC insurance limits.

At September 30, 2021, the District’s cash consisted of two operating bank accounts with the balances as follows:

	<u>Carrying amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 3,488,233	\$ 3,488,233

Note 4. Property Taxes

All property values are determined by the Midland County Appraisal District. A tax lien attaches to properties within the District on January 1 of each year when property valuations for the use in levying taxes are established. Taxes are levied on or about October 1 and are due and payable at that time. All unpaid taxes levied on October 1 become delinquent on February 1 of the following year. The Midland County Tax Assessor/Collector bills and collects the District’s property taxes.

The tax rate for the 2020 tax year (District’s fiscal year 2021) was \$0.29 per \$100 assessed valuation.

In the governmental fund financial statement columns, the receivables at yearend represent delinquent taxes. If delinquent taxes are not paid within sixty days of yearend, they are recorded as unavailable revenue.

In the government-wide financial statement columns, property taxes receivable and related revenue include all amounts due to the District regardless of when cash is received. Property taxes receivable are recorded net of an allowance of \$39,685.

Note 5. Capital Asset Activity

A summary of changes in general fixed assets is as follows:

	<u>Beginning Balance October 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance September 30, 2021</u>
Capital assets, not being depreciation				
Construction in progress	\$ 494,452	\$ 14,402	\$ -	\$ 508,854
Total construction in progress	<u>494,452</u>	<u>14,402</u>	<u>-</u>	<u>508,854</u>
Total capital assets, net	<u>\$ 494,452</u>	<u>\$ 14,402</u>	<u>\$ -</u>	<u>\$ 508,854</u>

Midland County Utility District

Notes to the Basic Financial Statements

Note 6. Commitments and Contingencies

There are no claims or lawsuits pending against the District at September 30, 2021, management is not aware of any contingencies that would have a material effect on the financial statements.

On October 14, 2019, the District entered interlocal agreement with the County of Midland, Texas, a political subdivision of the State of Texas, whereas the District is authorized to obtain and provide fresh water supply residents of the County of Midland, Texas. The initial terms of the agreement is for exploration purposes.

Note 7. Related Party Transaction

The District has an advance payment to related party in the amount \$55,078 at September 30, 2021. Advances are for startup costs associated with the creation of the District.

Note 8. General Management Contract

On September 4, 2013, the District entered into a contract with a general manager to provide the District with overall general management services such as: (1) planning which involves providing leadership and vision to the District by assisting the board with a strategic plan to bring water to the District's residents, (2) general management by collaborating with the District's Board President and the District attorney to plan all Board meetings and development of agendas, (3) general financial management which involves developing tools and systems to provide critical financial and operational planning to the Board, (4) community relationships by serving as spokesperson and assisting the board in representing the District in the community and region, and (5) providing programmatic effectiveness to oversee design, delivery and quality of programs and projects.

Note 9. New Accounting Pronouncements

GASB Statement No. 87. Leases. Statement 87 was issued on June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying assets. This standard becomes effective for the District fiscal year 2022. The District has not determined the impact of this statement.

GASB Statement No. 91. Conduit Debt Obligations. Statement 91 was issued on May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This standard becomes effective for the District fiscal year 2022, The District has not determined the impact of this statement.

Midland County Utility District

Notes to the Basic Financial Statements

GASB Statement No. 93. Replacement of Interbank Offered Rates. Statement 93 was issued March 2020. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of *reference rate*, as it is used in Statement 53, as amended

This standard becomes effective for the District fiscal year 2022. The District has not determined the impact of this statement.

GASB Statement No. 94. Public-Private and Public-Public Partnerships and Availability Payment Arrangements. Statement 94 was issued on March 2020. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This standard becomes effective for the District fiscal year 2023. The District has not determined the impact of this statement.

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Required Supplementary Information

Midland County Utility District

Schedule of Budgetary Comparison – General Fund

For the Fiscal Year Ended September 30, 2021

	Original/Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad valorem tax revenue	\$ 947,000	\$ 1,009,141	\$ 62,141
Tax penalty and interest	-	15,200	15,200
Interest income	-	515	515
	<u>947,000</u>	<u>1,024,856</u>	<u>77,856</u>
Total revenues	947,000	1,024,856	77,856
Expenditures			
Bookkeeping services	18,000	18,000	-
Insurance fees	1,000	821	179
Legal services	69,000	49,309	19,691
Management fees	48,000	58,884	(10,884)
Appraisal and collection services	6,500	5,142	1,358
Audit fees	20,000	22,999	(2,999)
Engineering fees	50,000	14,402	35,598
	<u>212,500</u>	<u>169,557</u>	<u>42,943</u>
Total expenditures	212,500	169,557	42,943
Net change in fund balance	<u>\$ 734,500</u>	<u>855,299</u>	<u>\$ 120,799</u>
FUND BALANCE, beginning		<u>2,557,830</u>	
FUND BALANCE, ending		<u>\$ 3,413,129</u>	

See Notes to the Required Supplementary Information.

Midland County Utility District

Notes to the Required Supplementary Information (Unaudited)

Note 1. Budgets And Budgetary Accounting

The District maintains control over operating expenditures by the establishment of an annual operating budget which includes the General Fund. The annual operating budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budget, as formally adopted by the Board of Directors, establishes the maximum authorization of operating funds to be expended by any fund. Any subsequent amendment thereto must be approved by the President of the Board of Directors and/or the Board of Directors. All unused budget authorizations lapse at the end of the year.

Note 2. Excess of Expenditures over Budgeted Amounts

For the year ended September 30, 2021, the District's actual management fee expenditures exceeded budget by \$10,884 and actual audit fee expenditures exceeded budget by \$2,999. These expenditures exceeded budget due to unforeseen rate increases in the management and audit providers' services.

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Texas Supplementary Information

Midland County Utility District
TSI-2. General Fund Expenditures
For the Fiscal Year Ended September 30, 2021

Bookkeeping services	\$	18,000
Insurance fees		821
Legal services		49,309
Management fees		58,884
Appraisal and collection services		5,142
Audit fees		22,999
Engineering fees		14,402
		<hr/>
TOTAL EXPENDITURES	\$	169,557
		<hr/> <hr/>

Midland County Utility

TSI-4 Analysis of Taxes Levied and Receivable (Unaudited)

For the Fiscal Year Ended September 30, 2021

	<u>Maintenance Taxes</u>			
Taxes receivable, beginning of year	\$ 51,776			
2020 original tax levy	1,001,963			
Prior year supplements	1,441			
Current year supplements	<u>13,314</u>			
Total to be accounted for	1,068,494			
Tax collections:				
Current year	(968,666)			
Prior year	<u>(22,559)</u>			
Total collections	(991,225)			
Adjustments - Current	(6,067)			
Adjustments - Delinquent	<u>(99)</u>			
Taxes receivable, end of year	<u>\$ 71,103</u>			
Taxes receivable, by years				
2020	\$ 41,554			
2019	13,261			
2018	5,454			
2017	3,625			
2016	3,271			
Prior Years	<u>3,938</u>			
Taxes receivable, end of year	\$ 71,103			
Allowance for doubtful accounts	<u>(39,685)</u>			
Taxes receivable, net	<u>\$ 31,418</u>			
	<u>2020 Tax Year</u>	<u>2019 Tax Year</u>	<u>2018 Tax Year</u>	<u>2017 Tax Year</u>
Property valuations:				
Real Estate	\$ 1,817,339,870	\$ 1,751,953,505	\$ 1,616,126,977	\$ 1,295,075,335
Personal property	854,319,160	857,113,820	853,847,121	594,050,525
Minerals	873,596,368	526,131,144	525,839,152	119,161,970
Less exemptions	<u>(115,495,374)</u>	<u>(134,355,363)</u>	<u>-</u>	<u>-</u>
Total property valuations	<u>\$ 3,429,760,024</u>	<u>\$ 3,000,843,106</u>	<u>\$ 2,995,813,250</u>	<u>\$ 2,008,287,830</u>
Tax rates per \$100 valuation:				
Maintenance tax rates	<u>0.02917</u>	<u>0.02761</u>	<u>0.02761</u>	<u>0.02761</u>
Total tax rates	<u>0.02917</u>	<u>0.02761</u>	<u>0.02761</u>	<u>0.02761</u>
Original tax levy	<u>\$ 1,001,963</u>	<u>\$ 828,533</u>	<u>\$ 827,144</u>	<u>\$ 554,488</u>
Percent of Taxes collected to taxes levied	<u>93%</u>	<u>104.3%</u>	<u>75.1%</u>	<u>97.8%</u>

Midland County Utility

TSI-7a. Comparative Schedule of Revenues and Expenditures

General Fund

			Percent of Fund Total Revenues	
	2021	2020	2021	2020
REVENUES				
Ad valorem taxes revenue	\$ 1,009,141	\$ 861,514	98%	98%
Tax penalties and interest	15,200	12,742	1%	1%
Interest income	515	5,184	0%	1%
Total revenues	1,024,856	879,440	100%	100%
EXPENDITURES				
Bookkeeping services	18,000	18,000	2%	2%
Insurance fees	821	520	0%	0%
Legal services	49,309	83,152	5%	9%
Management fees	58,884	3,855	6%	0%
Appraisal and collection services	5,142	5,727	1%	1%
Audit fees	22,999	17,403	2%	2%
Engineering fees	14,402	221,753	1%	25%
Total expenditures	169,557	350,410	17%	39%
Excess of revenues over expenditures	\$ 855,299	\$ 529,030	83%	61%

NOTE: Texas Commission on Environmental Equality requires five years of comparative data for this schedule. Prior to fiscal year 2020, the District utilized a proprietary fund rather than a governmental fund to report this activity. Five years of comparative governmental data will be presented as it becomes available.

Midland County Utility

TSI-7b. Comparative Schedule of Revenues and Expenses Proprietary Fund (Unaudited)

				Percent of Revenues		
	2019	2018	2017	2019	2018	2017
REVENUES						
Ad valorem taxes revenue	\$ 634,245	\$ 556,837	\$ 517,086	98.2	97.7	98.0
Penalties and interest	11,650	12,841	10,796	1.8	2.3	2.0
Total operating revenues	645,895	569,678	527,882	100.00	100.00	100.00
OPERATING EXPENSES						
Bookkeeping services	18,000	18,000	18,000	2.8	3.2	3.4
Insurance fees	847	1,693	520	0.1	0.3	0.1
Legal services	48,833	21,232	31,347	7.6	3.7	5.9
Management fees	5,396	3,286	14,701	0.8	0.6	2.8
Appraisal and collection services	6,305	5,082	3,083	1.0	0.9	0.6
Audit fees	15,030	13,609	13,133	2.3	2.4	2.5
Office supplies	-	228	-	-	0.0	-
Engineering fees	-	-	28,647	-	-	5.4
Total operating expenses	94,411	63,130	109,431	14.6	11.1	20.7
Operating income	551,484	506,548	418,451	85.4	88.9	79.3
NON-OPERATING REVENUES						
Interest income	8,634	4,283	2,415	1.3	0.8	0.5
Total non-operating revenues (expenses)	8,634	4,283	2,415	1.3	0.8	0.5
Change in net position	\$ 560,118	\$ 510,831	\$ 420,866	86.7	89.7	79.7

Note: Beginning in fiscal year 2020, the District utilized a general fund rather than a proprietary fund to report this activity.

Midland County Utility

TSI-8. Board Members, Key Personnel and Consultants (Unaudited)

For the Fiscal Year Ended September 30, 2021

Complete District Mailing Address: 110 W. Louisiana, Suite 312, Midland, TX 79701

District Business Telephone Number: (432) 685-1433

Submission Date of the most recent District Registration Form

(TWC Sections 36.054 and 49.054): December 1, 2021

Limit on Fees of Office that a Board of Director may receive during a fiscal period: \$ 0

(Set by Board Resolution – TWC Section 49.060)

Board Members	Term of Office (Elected or Appointed)	Fees of Office Paid	Title at Year End
Shelton Viney	(Elected) May 2014 May 2022	-	President
Alan L Lang	(Elected) May 2014 May 2022	-	Vice President
Joseph E. Patten, JR	(Elected) May 2016 May 2023	-	Secretary
Israel Rodriguez	(Elected) May 2016 May 2023	-	Treasurer
Jackie Schneider	(Elected) May 2015 May 2022	-	Director

Midland County Utility

TSI-8. Board Members, Key Personnel, and Consultants (Unaudited) – Continued
For the Fiscal Year Ended September 30, 2021

<u>Consultants</u>	<u>Fees</u>	<u>Type</u>
Parkhill, Smith & Cooper, Inc.	\$ 78,243	Risk Management Consultants
Rendall Sikes, PLLC	34,082	Legal Counsel
The Carlton Law Firm	18,746	Legal Counsel
William R. Bain	18,000	Accounting Firm
Weaver and Tidwell, LLP	23,000	Accounting Firm
Midland County Appraisal District	5,448	Property Appraisers
TML Intergovernmental Risk Pool	821	Insurance

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Internal Control and Compliance Report

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

The Members of the Board of Directors of
Midland County Utility District

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 the governmental activities and the major fund of Midland County Utility District (the District), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 17, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the basic 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 basic financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2021-001 to be a material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2021-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of 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*.

Weaver and Tidwell, L.L.P.
400 West Illinois Avenue, Suite 1550 | Midland, Texas 79701
Main: 432.683.5226

The Members of the Board of Supervisors of
Midland County Utility District

District's Response to Findings

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

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
January 17, 2022

Midland County Utility District
Schedule of Findings and Responses
For the Fiscal Year Ended September 30, 2021

Section 1. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

Finding 2021-001 Account reconciliations

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition and Context: Account balances recorded in the general ledger should be reconciled to supporting documentation on a regular basis.

Cause: The conditions described above were caused by deficiency in controls over recording and reconciling of account balances.

Effect: Adjusting entries were required to roll beginning fund balances, and to adjust taxes receivable and revenue.

Recommendation: The District should implement procedures to ensure account balances are reconciled to the general ledger on a regular basis.

Management's Response: Management (Jay Edwards) agrees with the findings. In prior years, Management has worked with the previous auditor to establish the District's books in a format recommended by the former auditor and relied upon by Management in order to provide a proper presentation of the District's finances. Management is taking steps to ensure revised controls are in place in the current year to reformat the District's books in order to provide the proper presentation.

Finding 2021-002 Segregation of duties

Type of Finding: Significant deficiency in Internal Control over Financial Reporting

Criteria: Controls should be in place to ensure the proper segregation of duties

Condition and Context: Numerous accounting functions are performed by one individual with limited documentation of oversight.

Cause: The conditions described above were caused by deficiency in controls segregation of duties.

Effect: Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Because one individual manages the entire accounting function for the District, the accounting function lacks appropriate segregation of duties.

Recommendation: Although the lack District employees prohibits complete adherence to this concept, we believe that management should be mindful of areas within the accounting function where segregation of duties could be improved.

Management's Response: Management (Jay Edwards) agrees with the finding and is taking steps to ensure controls are in place, in the current year.

Midland County Utility District
Schedule of Findings and Responses
For the Fiscal Year Ended September 30, 2021

Section 2. Schedule of Prior Audit Findings and Responses

Finding 2020-001 Prior year restatement

Recommendation: The District should implement procedures to ensure controls are in place to ensure the fair presentation of financial statements.

Status: No further restatements deemed necessary.

Finding 2020-002 Account reconciliations

Recommendation: The District should implement procedures to ensure account balances are reconciled to the general ledger on a regular basis.

Status: Not resolved—The District received an identical finding for account reconciliations in 2021 (Finding 2021-001).

Finding 2020-003- Segregation of duties

Recommendation: Although the lack District employees prohibits complete adherence to this concept, we believe that management should be mindful of areas within the accounting function where segregation of duties could be improved.

Status: Not resolved—The District received an identical finding for account reconciliations in 2021 (Finding 2021-002).