



**THE MIDLAND DEVELOPMENT  
CORPORATION,**

**A Type A CORPORATION  
and  
COMPONENT UNIT OF  
THE CITY OF MIDLAND, TEXAS**

**BASIC FINANCIAL STATEMENTS**

**FOR YEAR ENDED**

**SEPTEMBER 30, 2014**

MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS

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KPMG LLP  
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## Independent Auditors' Report

The Board of Directors  
The Midland Development Corporation:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Midland Development Corporation (MDC), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the MDC'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 U.S. generally accepted accounting principles; 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 auditors' 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the MDC as of September 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



## ***Other Matters***

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and Budgetary Comparison Schedule on pages 3–9 and 25 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2015 on our consideration of the MDC'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 MDC's internal control over financial reporting and compliance.

**KPMG LLP**

Dallas, Texas  
March 20, 2015



THE MIDLAND DEVELOPMENT CORPORATION  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2014

As management of the Midland Development Corporation (MDC), we offer readers of the MDC financial statements this narrative overview and analysis of the financial activities of the MDC for the fiscal year ended September 30, 2014.

Financial Highlights

The net position of the MDC was \$47.54 million at September 30, 2014, a decrease of \$1.72 million from the September 30, 2013 level of \$49.26 million.

At September 30, 2014, unassigned fund balance for the general fund was \$15.73 million, an increase of \$9.1 million from the September 30, 2013 level of \$6.63 million. Amounts restricted for economic development incentives in the general fund decreased from \$32.79 million at September 30, 2013 to \$17.76 million at September 30, 2014.

The MDC has no debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the MDC's basic financial statements. The MDC's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The statement of net position presents information on all of the MDC's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the MDC is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2014

Government-Wide Financial Statements (continued)

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements display functions of the MDC that are principally supported by sales taxes. The governmental activities of the MDC include general government and economic development only.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The MDC, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The only fund of the MDC is a governmental fund.

Governmental Fund

A governmental fund is used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of a governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund and governmental activities.

The financial statements presented for the MDC are the same at the government-wide and fund levels, with the exception of compensated absences and capital assets with the related activities, because the nature of the assets, liabilities, revenues, and expenses that were reported at the government-wide level were such that they also met the criteria for reporting at the fund level.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2014

Notes to the Basic Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the MDC's annual budget. The MDC adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the MDC, assets exceed liabilities at September 30, 2014 by \$47.54 million, a decrease of \$1.72 million from the September 30, 2013 amount of \$49.26 million. Several factors contributed to this decrease. Sales tax revenues were \$2.3 million higher than budgeted due to a growing economy. Direct business incentives of \$2.8 million higher than originally budgeted also had a major impact on net position.

Table 1  
MDC's Net Assets  
(In Thousands)

|  | <u>Governmental Activities</u> |                  |
|--|--------------------------------|------------------|
|  | <u>2014</u>                    | <u>2013</u>      |
| Current and other assets                       | \$ 39,513                      | \$ 42,539        |
| Capital assets                                 | 11,173                         | 6,839            |
| Total assets                                   | <u>50,686</u>                  | <u>49,378</u>    |
| Liabilities                                    | 3,145                          | 114              |
| Total liabilities                              | <u>3,145</u>                   | <u>114</u>       |
| Net position:                                  |                                |                  |
| Invested in capital assets                     | 11,173                         | 6,839            |
| Restricted for economic development incentives | 17,763                         | 32,787           |
| Unrestricted                                   | 18,605                         | 9,638            |
| Total net position                             | <u>\$ 47,541</u>               | <u>\$ 49,264</u> |

(continued)

THE MIDLAND DEVELOPMENT CORPORATION  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2014

Government-Wide Financial Analysis (continued)

Table 2  
MDC's Changes in Net Position  
(in Thousands)

|                             | Governmental Activities |                  |
|-----------------------------|-------------------------|------------------|
|                             | 2014                    | 2013             |
| Revenues:                   |                         |                  |
| General revenues:           |                         |                  |
| Sales taxes                 | \$ 11,194               | \$ 9,762         |
| Other                       | 220                     | 162              |
| Total revenues              | <u>11,414</u>           | <u>9,924</u>     |
| Expenses:                   |                         |                  |
| General government          | 1,545                   | 1,335            |
| Economic development        | 11,592                  | 724              |
| Total expenses              | <u>13,137</u>           | <u>2,059</u>     |
| Increase in net assets      | (1,723)                 | 7,865            |
| Net position – October 1    | 49,264                  | 41,399           |
| Net position – September 30 | <u>\$ 47,541</u>        | <u>\$ 49,264</u> |

Governmental Activities

Table 3  
MDC's General Revenues  
(in Thousands)

|                        | Governmental Activities |                 |
|------------------------|-------------------------|-----------------|
|                        | 2014                    | 2013            |
| Sales taxes            | \$ 11,194               | \$ 9,762        |
| Investment earnings    | 7                       | 24              |
| Other                  | 213                     | 138             |
| Total general revenues | <u>\$ 11,414</u>        | <u>\$ 9,924</u> |

(continued)



THE MIDLAND DEVELOPMENT CORPORATION  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2014

Governmental Activities (continued)

The MDC's general revenues for governmental activities provided \$11.4 million in fiscal year 2014 as compared to \$9.9 million in fiscal year 2013. The increase is due to sales tax revenue that was \$1.4 million more than fiscal year 2013. The revenues were used to pay for expenses associated with general government and economic development activities of \$13.1 million in fiscal year 2014, compared to \$2.1 million in fiscal year 2013. Governmental activities are not self-supporting and are paid for through general revenues.

The most significant expense items of the MDC governmental activities are those associated with providing for the contractual obligations for administration, \$1.5 million, and economic development activities, \$11.6 million, during the year ended September 30, 2014.

Financial Analysis of the Governmental Fund

As noted earlier, the MDC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund

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

The general fund is the chief operating fund of the MDC. At the end of the current fiscal year, unassigned fund balance was \$15.7 million and total fund balance was \$36.4 million. At the close of fiscal year 2013, unassigned fund balance was \$6.6 million and total fund balance was \$42.5 million. Significant components of the overall decrease in fund balance include \$11.6 million in direct business incentives and \$5.8 million in capital outlay partially offset by \$11.2 million in sales tax revenue. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance currently represents 83% of total General Fund expenditures, down from 105% in 2013, while total fund balance represents 192%, compared to 672% in 2013, of that same amount.

\$2.9 million of the fund balance is committed to promotional activities. An additional \$17.76 million is restricted to economic development contracts in place at September 30, 2014 to provide economic development assistance to multiple entities.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2014

General Fund Budgetary Highlights

Differences between the final budget and actual expenditures resulted in MDC expenditures being \$2.5 million over budget for fiscal year 2014. The major source of this variance is direct business incentives provided by the MDC that were \$2.8 million over budget.

Budgetary adjustments during fiscal year 2014 included an increase to direct business incentives of \$4.7 million regarding an economic development agreement with a space suit manufacturer. Actual-on-a-budgetary-basis expenditures were \$18.9 million compared to the final budget amount of \$16.4 million.

The MDC has an actual-on-a-budgetary-basis General Fund balance of \$36.4 million compared to \$42.5 million at the end of the previous year.

Capital Assets

MDC's investment in capital assets for its governmental type activities as of September 30, 2014 amounts to \$11.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and infrastructure.

MDC's construction in progress during 2014 included \$4.6 million for a parking facility near a new multi-family residential and retail building, as well as \$1.3 million for the construction of an altitude chamber.

Table 4  
MDC's Capital Assets at September 30, 2014  
(Net of Depreciation, in Thousands)

|                                  | Governmental Activities |                 |
|----------------------------------|-------------------------|-----------------|
|                                  | 2014                    | 2013            |
| Land                             | \$ 4,425                | \$ 4,693        |
| Buildings                        | -                       | 1,032           |
| Improvements other than building | 124                     | 318             |
| Machinery and equipment          | 14                      | 17              |
| Infrastructure                   | 398                     | 408             |
| Construction in progress         | 6,212                   | 371             |
| <b>Total capital assets</b>      | <b>\$ 11,173</b>        | <b>\$ 6,839</b> |

(continued)

THE MIDLAND DEVELOPMENT CORPORATION  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2014

Debt

The MDC had no outstanding debt at September 30, 2014.

Economic Factors And Next Year's Budgets And Rates

The budgetary process for fiscal year 2015 focused on the allocation of limited resources to economic development activities and contractual payments for administration of the MDC. The budget presented for all MDC operations for the 2014–2015 fiscal year totals \$8.8 million.

The fiscal year 2015 operating budget is supported by combined revenues of \$10.6 million. The major source of this revenue will be \$10.6 million in sales tax collections.

Sales tax receipts are driven by numerous economic conditions. Particularly influenced by oil and gas activity, sales taxes for fiscal year 2014 followed the trend established during 2011 and the latter part of fiscal year 2010, increasing substantially year over year. Fiscal year 2015 sales tax receipts are budgeted at \$1.7 million more than the fiscal year 2014 budget, but less than the fiscal year 2014 actual receipts.

The expenditures budget for the General Fund is \$8.8 million. The revenue budget for the 2014–2015 fiscal year is expected to exceed expenditures by \$1.8 million.

Request For Information

This financial report is designed to provide a general overview of the MDC's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, MDC, 300 N. Loraine, Midland, TX 79702-1152.

MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
STATEMENT OF NET POSITION  
September 30, 2014

Assets

|  |                       |
|--|-----------------------|
| Cash and cash equivalents                        | \$ 25,611,455         |
| Sales tax receivable                             | 2,080,418             |
| Capital assets (net of accumulated depreciation) | 11,172,617            |
| Due from primary government                      | 9,342,000             |
| Notes receivable                                 | <u>2,480,000</u>      |
| <br>Total assets                                 | <br><u>50,686,490</u> |

Liabilities

|                           |                      |
|---------------------------|----------------------|
| Accounts payable          | 2,691,149            |
| Retainage payable         | <u>415,952</u>       |
| Noncurrent liabilities:   |                      |
| Due within one year       | 15,000               |
| Due in more than one year | <u>23,371</u>        |
| <br>Total liabilities     | <br><u>3,145,472</u> |

Net Position

|  |                          |
|--|--------------------------|
| Invested in capital assets                     | 11,172,617               |
| Restricted for economic development incentives | 17,763,252               |
| Unrestricted                                   | <u>18,605,149</u>        |
| <br>Total net position                         | <br><u>\$ 47,541,018</u> |

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



MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
STATEMENT OF ACTIVITIES  
Year Ended September 30, 2014

| <u>Functions/Programs</u>     | <u>Expenses</u>   | <u>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Assets<br/>Governmental<br/>Activities</u> |
|-------------------------------|-------------------|--|
| Primary government:           |                   |  |
| Governmental activities:      |                   |  |
| General government            | \$ 1,544,383      | \$ (1,544,383)   |
| Economic development          | <u>11,592,321</u> | <u>(11,592,321)</u>  |
| Total governmental activities | <u>13,136,704</u> | <u>(13,136,704)</u>  |
| General revenues:             |                   |  |
| Sales taxes                   |                   | 11,194,121   |
| Investment earnings           |                   | 6,633  |
| Miscellaneous                 |                   | <u>212,967</u>   |
| Total general revenues        |                   | <u>11,413,721</u>  |
| Change in net position        |                   | <u>(1,722,983)</u>   |
| Net position – beginning      |                   | <u>49,264,001</u>  |
| Net position – ending         |                   | <u>\$ 47,541,018</u>   |

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

MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
BALANCE SHEET  
GENERAL FUND  
September 30, 2014

|   | <u>General</u>       | <u>Total<br/>Governmental<br/>Funds</u> |
|---|----------------------|---|
| <u>Assets</u>   |                      |   |
| Cash and cash equivalents   | \$ 25,611,455        | \$ 25,611,455                           |
| Sales tax receivable  | 2,080,418            | 2,080,418                               |
| Due from primary government   | 9,342,000            | 9,342,000                               |
| Notes receivable  | <u>2,480,000</u>     | <u>2,480,000</u>                        |
| Total assets  | <u>\$ 39,513,873</u> | <u>\$ 39,513,873</u>                    |
| <br><u>Liabilities and Fund Balance</u>   |                      |   |
| Liabilities:  |                      |   |
| Accounts payable  | \$ 2,691,149         | \$ 2,691,149                            |
| Retainage payable   | <u>415,952</u>       | <u>415,952</u>                          |
| Total liabilities   | <u>3,107,101</u>     | <u>3,107,101</u>                        |
| Fund balance:   |                      |   |
| Restricted for economic development incentives  | 17,763,252           | 17,763,252                              |
| Committed to promotional activities   | 2,910,093            | 2,910,093                               |
| Unassigned  | <u>15,733,427</u>    | <u>15,733,427</u>                       |
| Total fund balance  | <u>36,406,772</u>    | <u>36,406,772</u>                       |
| Total liabilities and fund balance  | <u>\$ 39,513,873</u> |   |
| <br>Amounts reported for governmental activities in the statement of net assets are different because:  |                      |   |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.                           |                      | 11,172,617                              |
| Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. |                      | <u>(38,371)</u>                         |
| Net assets of governmental activities   |                      | <u>\$ 47,541,018</u>                    |

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

MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GENERAL FUND  
Year Ended September 30, 2014

|                                      | General       | Total<br>Governmental<br>Funds |
|--------------------------------------|---------------|--------------------------------|
| Revenues:                            |               |                                |
| Sales taxes                          | \$ 11,194,121 | \$ 11,194,121                  |
| Interest income                      | 6,633         | 6,633                          |
| Other                                | 20,557        | 20,557                         |
| Total revenues                       | 11,221,311    | 11,221,311                     |
| Expenditures:                        |               |                                |
| Administration                       | 654,911       | 654,911                        |
| Marketing and promotion              | 604,148       | 604,148                        |
| Direct business incentives           | 11,592,321    | 11,592,321                     |
| Payments to taxing units             | 242,687       | 242,687                        |
| Capital outlay                       | 5,840,568     | 5,840,568                      |
| Total expenditures                   | 18,934,635    | 18,934,635                     |
| Excess of revenues over expenditures | (7,713,324)   | (7,713,324)                    |
| Other financing sources:             |               |                                |
| Sale of capital assets               | 1,665,328     | 1,665,328                      |
| Total other financing sources        | 1,665,328     | 1,665,328                      |
| Net change in fund balance           | (6,047,996)   | (6,047,996)                    |
| Beginning fund balance               | 42,454,768    |                                |
| Ending fund balance                  | \$ 36,406,772 |                                |

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

5,806,491

In the statement of activities, only the *gain* on the sale of capital assets is reported. However, in the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

(1,472,918)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

(8,560)

Change in net position of governmental activities

\$ (1,722,983)

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

THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

1. Summary of Significant Accounting Policies

The Midland Development Corporation (MDC), a component unit of the City of Midland, Texas (the City), is a legally separate nonprofit corporation organized under the Texas Development Corporation Act of 1979, Article 5190.6 Vernon's Texas Revised Civil Statutes Annotated as amended and governed by Section 4A of the Act. The MDC was incorporated in February 2002. The purpose of the MDC is to:

1. Keep existing jobs in Midland;
2. Keep existing businesses in Midland;
3. Foster the expansion of businesses currently located in Midland;
4. Attract new industry and businesses to Midland;
5. Provide long-term employment opportunities for Midlanders;
6. Promote and develop industrial and manufacturing enterprises in order to eliminate unemployment and underemployment;
7. Promote and encourage employment and the public welfare of, for, and on behalf of the City;
8. Promote areas of the City with a large number of substandard, deteriorated, or deteriorating structures, which impairs the sound growth of the City or constitutes an economic and social liability;
9. Develop areas of the City that should be developed in order to meet the development objectives of the City; and
10. Consider the impact on any local business before providing an incentive to any corporation or entity.

The financial reporting entity presented in the accompanying financial statements of the MDC includes the primary corporate entity, the Midland Development Corporation. The MDC has no component units.

The accounting policies of the MDC, as reflected in the accompanying financial statements, conform to U.S. generally accepted accounting principles for local government units as prescribed by the Governmental Accounting Standards Board (GASB), the accepted body for promulgating governmental accounting and reporting principles.

(continued)



THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

1. Summary of Significant Accounting Policies (continued)

A. The Financial Reporting Entity

The MDC is a legally separate nonprofit corporation organized under the Texas Development Corporation Act of 1979, Article 5190.6 Vernon's Texas Revised Civil Statutes Annotated as amended and governed by Section 4A of the Act. A majority of the MDC Board is appointed by the City and the City can impose its will upon the MDC. Additionally, the City Council and the MDC Boards are not substantively the same and the MDC does not provide services entirely or almost entirely to the City. Therefore, MDC is a discretely presented component unit of the City. The MDC began operations on February 1, 2002.

B. Basic Financial Statements – The basic financial statements, including notes to the financial statements that are essential to a user's understanding of the statements, are presented at two basic levels:

1. The government-wide level, where all statements are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements present all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses and gains and losses of the MDC as governmental activities.
2. The fund level, where governmental fund statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

C. Government-wide and Fund Financial Statements

As previously discussed, the basic financial statements of the MDC are presented at two basic levels, the government-wide level and the fund level. These statements focus on the MDC as a whole at the government-wide level and on the major fund at the fund level. Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of activities of the MDC. There is no interfund activity in the MDC financial statements. Governmental activities, which are normally supported by taxes, are the only reported activities.

The government-wide statement of net position reports all financial and capital resources of the MDC and is presented in "assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position" format. Assets and liabilities are presented in relative order of liquidity with liabilities that have an average maturity of more than one year separated into the amount due within one year and the amount due in more than one year.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

1. Summary of Significant Accounting Policies (continued)

C. Government-wide and Fund Financial Statements (continued)

The government-wide statement of activities identifies the relative financial burden of each of the MDC's functions on the taxpayers by identifying direct expenses and the extent of self-support through program revenues. Direct expenses are clearly identifiable expenses that can be specifically associated with a function. Program revenues are revenues derived directly from the function or other sources that reduce the net cost of the function to be financed from general government revenues. Program revenues are 1) charges to customers who purchase, use, or directly benefit from services provided by a function and which are generated by that function, 2) grants and contributions restricted to operating requirements of a function and, 3) grants and contributions restricted to capital requirements of a function. Items such as taxes, investment earnings, and nonspecific grants are not included as program revenues but are reported as general revenues that normally cover the net cost of a function.

Fund level financial statements are presented for the governmental fund, with a focus on the major fund. A major fund is defined by GASB Statement No. 34, paragraph 76, as amended by GASB Statement No. 37, paragraph 15, as a fund meeting certain specific asset, liability, revenue, or expenditure / expense criteria relative to all funds of that type and relative to the total for all governmental and enterprise funds combined. GASB Statement No. 65 states that assets should be combined with deferred outflows of resources and liabilities should be combined with deferred inflows of resources for purposes of determining which elements meet the criteria for major fund determination in accordance with GASB Statement No. 34. Additionally, any fund deemed particularly important by the MDC may be reported as a major fund.

D. Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using a current financial resources measurement focus and modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In the case of sales taxes, available means due within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Expenditures are generally recorded when a fund liability is incurred. Governmental fund revenues, which have been accrued based upon the susceptible to accrual concept, are sales taxes.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

1. Summary of Significant Accounting Policies (continued)

D. Measurement Focus and Basis of Accounting (continued)

The only major fund used by the MDC is the General Fund. The only operating unit of the MDC, this fund accounts for the economic development activities of the MDC, collection of sales tax revenues, and expenses associated with marketing and promotion of Midland.

E. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include any cash on hand, demand deposits, and any highly liquid investments that have an original maturity of three months or less from date of purchase. Investments in Texas Local Government Investment Pool (TexPool), Local Government Investment Cooperative (LOGIC) or TexStar (2a7-like pools) are considered cash equivalents as the amounts are available on demand. Investments, other than investments in 2a7-like pools, are recorded at fair value based upon verifiable market prices.

F. Capital Assets

Capital assets are defined as a purchase or other acquisition of land, equipment, facilities, or other similar assets or the cost of construction of such asset the cost of which is in excess of \$5,000 and has a useful life of more than one year. These assets include property, plant, equipment, and all other tangible and intangible assets purchased or acquired. Purchased or constructed assets are carried at historical cost. Contributed assets are recorded at estimated fair market value at the time of acquisition.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciable capital assets are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Classification</u>       | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings                         | 40           |
| Improvements other than buildings | 20           |
| Machinery and equipment           | 6            |
| Infrastructure                    | 50           |

G. Compensated Absences

The MDC's employees earn paid time off, which may either be taken or accumulated, subject to a specified maximum, until paid upon retirement or termination. The MDC has accrued paid time off and related salary payments

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

1. Summary of Significant Accounting Policies (continued)

G. Compensated Absences (continued)

based on the criteria set forth in GASB Statement No. 16. This liability has been accrued in the government-wide statements. Governmental funds report liabilities only for the matured portion of these liabilities.

H. Nature and Purpose of Classifications of Fund Equity

Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by legal agreements, creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the MDC Board of Directors through an ordinance or resolution.

I. Implementation of New Accounting Principles

In the preparation of the Fiscal Year 2014 basic financial statements, MDC adopted the following accounting standard by the GASB:

- GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The general fund balance sheet includes a reconciliation between fund balance – general fund and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this \$11,172,617 difference are as follows:

|   |                   |
|---|-------------------|
| Cost of capital assets  | \$ 11,374,715     |
| Accumulated depreciation  | <u>(202,098)</u>  |
| <br>Net adjustment to reduce <i>fund balance-general fund</i><br>to arrive at <i>net assets – governmental activities</i> | <br>\$ 11,172,617 |

(continued)



THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

2. Reconciliation of Government-wide and Fund Financial Statements (continued)

Another element of that reconciliation states that “long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$38,371 difference are as follows:

|   |                  |
|---|------------------|
| Compensated absences  | <u>\$ 38,371</u> |
| Net adjustment to reduce <i>fund balance-general fund</i><br>to arrive at <i>net position – governmental activities</i> | <u>\$ 38,371</u> |

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities.

The general fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between *net change in fund balance – general fund and changes in net position of governmental activities* as reported in the government-wide statement of activities. The reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$5,806,491 difference are as follows:

|  |              |
|--|--------------|
| Capital outlay   | \$ 5,840,568 |
| Depreciation Expense   | (34,077)     |
| Net adjustment to increase <i>net changes in fund balance - general fund</i><br>to arrive at <i>net changes in net position of governmental activities</i> | \$ 5,806,491 |

3. Deposits, Investments, and Obligations under Reverse Repurchase Agreements

MDC deposits were fully insured or collateralized as of September 30, 2014. At year-end, the carrying amount of MDC’s cash was \$13,824,805. The bank balance of the City was covered by collateral with a fair value of \$16,044,289 at September 30, 2014, held in the City’s name by the Federal Reserve Bank of Minneapolis as agent for the City.

THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

3. Deposits, Investments, and Obligations under Reverse Repurchase Agreements (continued)

The MDC's investment policies are governed by State statutes. The MDC is governed by the City's investment policies which further limit State statutes such that eligible investments include the following:

A. Obligations of the United States or its agencies and instrumentalities:

1. United States of America Treasury securities
2. Farmers Home Administration (FmHA) obligations backed by the full faith and credit of the United States
3. Federal Home Loan Bank (FHLBs) bonds
4. Federal National Mortgage Association (Fannie Mae or FNMA) notes and debentures
5. Farm Credit System Obligations
6. Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC) obligations, i.e., discount notes or debentures.

B. Direct obligations of the State of Texas or its agencies

Texas State, City, County, or School District General Obligation Bonds with a remaining maturity of ten years or less having been rated as to investment quality by Moody's or Standard and Poor's (nationally recognized investment rating firms) and having received a rating of no less than "A" or its equivalent.

C. Certificates of deposit issued by state and national banks domiciled in this state

Certificates of deposit issued by state and national banks domiciled in this state that are: (1) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or (2) secured by obligations that are described in V.T.C.A., Local Government Code Sections 105.001 et seq.;

D. Fully collateralized repurchase agreements having a defined termination date

Fully collateralized direct repurchase agreements and reverse repurchase agreements with a defined termination date of no more than 90 days from the date such investment is purchased, and secured by obligations of the United States or its agencies and instrumentalities with a market value of not less than the amount of the funds disbursed and held by a custodian for the MDC.

Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. Money received under the terms of a reverse repurchase agreement shall be used to acquire additional eligible investments whose maturity does not exceed the expiration date of the reverse repurchase agreement.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

3. Deposits, Investments, and Obligations under Reverse Repurchase Agreements (continued)

E. Money market funds

Money market funds fully authorized by State statute of both public and private sponsorship.

F. Other securities or obligations approved by the City Council

Other such securities or obligations as authorized by State statute and approved by the City Council.

Investments of the MDC, other than for 2a7-like pools, are valued based upon quotes obtained from Bloomberg. Investments in 2a7-like pools are valued based upon the value of pool shares. No investments are reported at amortized cost.

The MDC invests in three 2a7-like pools: the Local Government Investment Cooperative (LOGIC), the Texas Local Government Investment Pool (TexPool) and TexStar, all of which were created under the Interlocal Cooperation Act, Texas Government Code Ann. Ch. 791 and the Texas Government Code Ann. Ch. 2256. Investments in the 2a7-like pools are considered to be cash equivalents when preparing these financial statements.

LOGIC is governed by a five-member Board of Directors consisting of individuals from participating Government Entities in the pool. The business and affairs of LOGIC are managed by the Board. J.P. Morgan Investment Management, Inc. provides investment management, fund accounting, transfer agency and custodial services for the pool and First Southwest Asset Management, Inc. provides administrative, marketing and participant services. The Texas Treasury Safekeeping Trust Company is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is the sole officer, director, and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act, Texas Government Code Ann. ch. 2256. TexStar is governed by a five-member Board of Directors comprising three government officials or employees and two other persons with expertise in public finance. Additionally, TexStar has a seven-member advisory board.

Fair value of the MDC's position in all three pools is, in all material respects, the same as the value of the pool shares. Investment income earned on pooled cash and investments is allocated to each fund based upon each fund's weighted average daily cash and investment balances.

State statutes permit the MDC to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the MDC or provide securities or cash of equal value, the MDC would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

3. Deposits, Investments, and Obligations under Reverse Repurchase Agreements (continued)

During the year ended September 30, 2014, the MDC did not invest in derivatives.

Credit Risk – In compliance with the MDC's investment policy, as of September 30, 2014, MDC minimized credit risk by limiting investments to the safest types of securities and diversifying the portfolio so that potential losses on individual securities were minimized. The 2a7-like pools (which represent 100% of the portfolio) are rated AAAM by Standard and Poor's.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the MDC's investment policy requires that the portfolio remain sufficiently liquid to enable the MDC meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements. Liquidity and marketability will be ensured by investing in securities with active secondary markets. Final stated maturities may not exceed ten years with no more than 30% exceeding seven years and dollar weighted average portfolio maturity not to exceed five years in the investments listed above in sections A through F.

Concentration of Credit Risk – The City's investment policy states that the portfolio(s) shall be diversified by type of investment and maturities to reduce risks resulting from undue investment concentration. The investments in 2a7-like pools balance as of September 30, 2014 consisted of TexPool, LOGIC, and TexStar in the amounts of \$5,045,236, \$17,242, and \$6,724,172, respectively, which comprise 100% of the MDC's cash and cash equivalents.

4. Receivables

Receivables as of September 30, 2014 for the MDC were sales tax receivables for \$2,080,418 due from the State of Texas.

The MDC also has \$9.342 million due from the City of Midland, which was part of economic development agreements for construction of streets and infrastructure. Funding was provided to the City of Midland as an interest-free forgivable loan. Additionally, the \$2.48 million notes receivable are economic development agreements provided in the form of forgivable loans to five external entities.

(continued)



THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

5. Capital Assets

Capital asset activity for the year ended September 30, 2014 was as follows:

|  | Beginning<br>Balance | Additions/<br>Completions | Retirements/<br>Adjustments | Ending<br>Balance    |
|--|----------------------|---------------------------|-----------------------------|----------------------|
| Governmental activities:                     |                      |                           |                             |                      |
| Capital assets, not being depreciated:       |                      |                           |                             |                      |
| Land   | \$ 4,693,032         | \$ -                      | \$ (268,279)                | \$ 4,424,753         |
| Construction in progress                     | 370,480              | 5,840,568                 | -                           | 6,211,048            |
| Total capital assets, not being depreciated  | <u>5,063,512</u>     | <u>5,840,568</u>          | <u>(268,279)</u>            | <u>10,635,801</u>    |
| Capital assets, being depreciated:           |                      |                           |                             |                      |
| Buildings                                    | 1,271,184            | -                         | (1,271,184)                 | -                    |
| Improvements other than buildings            | 499,260              | -                         | (282,924)                   | 216,336              |
| Machinery and equipment                      | 38,076               | -                         | -                           | 38,076               |
| Infrastructure                               | 484,502              | -                         | -                           | 484,502              |
| Total capital assets, being depreciated      | <u>2,293,022</u>     | <u>-</u>                  | <u>(1,554,108)</u>          | <u>738,914</u>       |
| Less accumulated depreciation for:           |                      |                           |                             |                      |
| Buildings                                    | (239,171)            | (7,314)                   | 246,485                     | -                    |
| Improvements other than buildings            | (181,138)            | (14,075)                  | 102,984                     | (92,229)             |
| Machinery and equipment                      | (20,727)             | (2,997)                   | -                           | (23,724)             |
| Infrastructure                               | (76,454)             | (9,691)                   | -                           | (86,145)             |
| Total accumulated depreciation               | <u>(517,490)</u>     | <u>(34,077)</u>           | <u>349,469</u>              | <u>(202,098)</u>     |
| Total capital assets, being depreciated, net | <u>1,775,532</u>     | <u>(34,077)</u>           | <u>(1,204,639)</u>          | <u>536,816</u>       |
| Governmental activities capital assets, net  | <u>\$ 6,839,044</u>  | <u>\$ 5,806,491</u>       | <u>\$ (1,472,918)</u>       | <u>\$ 11,172,617</u> |

6. Employee Benefit Plans

The MDC participates in a multiple-employer defined contribution salary deferral plan created in accordance with Internal Revenue Code Section 401(k). The plan is administered by the American Chamber of Commerce Executives Profit Sharing Plan. Active participants must be at least 21 years of age with a minimum of one year of eligibility service. The MDC contributes 9% of each eligible employee's total annual compensation to the plan. Employees may also make elective deferral contributions up to specified limits of their total compensation each year. The MDC will match those contributions up to a maximum of 3% of each participant's total annual compensation. Vesting is 25% after one year of eligible service, 50% after two years, 75% after three years and 100% after four years of eligible service. The MDC contributed a total of \$30,075 to the plan during fiscal year 2014.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2014

7. Long-term liabilities

Long-term liability activity for the year ended September 30, 2014 was as follows:

|   | Beginning<br>Balance | Additions/<br>Completions | Retirements/<br>Adjustments | Ending<br>Balance | Due Within<br>One Year |
|---|----------------------|---------------------------|-----------------------------|-------------------|------------------------|
| Governmental activities:                      |                      |                           |                             |                   |                        |
| Compensated absences                          | <u>\$ 29,811</u>     | <u>\$ 13,125</u>          | <u>(\$ 4,565)</u>           | <u>\$ 38,371</u>  | <u>\$ 15,000</u>       |
| Governmental activities long-term liabilities | <u>\$ 29,811</u>     | <u>\$ 13,125</u>          | <u>(\$ 4,565)</u>           | <u>\$ 38,371</u>  | <u>\$ 15,000</u>       |

8. Risk Management

The MDC is exposed to various risks of loss related to torts. For the purposes of the Texas Tort Claims Act (Subchapter A, Chapter 101, Texas Civil Practices and Remedies Code), the MDC is a governmental unit and its actions are governmental functions and, therefore, are limited by governmental immunity. There were no claims outstanding as of September 30, 2014.

9. Commitments

At September 30, 2014, the MDC had contracts for economic development commitments to eight entities for \$17,763,252.

10. Litigation

The MDC was not party to any legal actions arising in the ordinary course of its business during fiscal year ended September 30, 2014.

MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
Year Ended September 30, 2014

|   | Original<br>Budget   | Amended<br>Budget    | Actual               | Variance—<br>Favorable<br>(Unfavorable) |
|---|----------------------|----------------------|----------------------|---|
| Revenues:                                       |                      |                      |                      |   |
| Sales taxes                                     | \$ 8,900,000         | \$ 8,900,000         | \$ 11,194,121        | \$ 2,294,121                            |
| Interest income                                 | 30,000               | 30,000               | 6,633                | (23,367)                                |
| Other   | -                    | -                    | 20,557               | 20,557                                  |
|   | <u>8,930,000</u>     | <u>8,930,000</u>     | <u>11,221,311</u>    | <u>2,291,311</u>                        |
| Total revenues                                  |                      |                      |                      |   |
| Expenditures:                                   |                      |                      |                      |   |
| Administration                                  | 772,584              | 772,584              | 654,911              | 117,673                                 |
| Marketing and promotion                         | 618,500              | 618,500              | 604,148              | 14,352                                  |
| Direct business incentives                      | 7,309,229            | 8,809,229            | 11,592,321           | (2,783,092)                             |
| Payments to taxing units                        | 209,687              | 209,687              | 242,687              | (33,000)                                |
| Capital outlay                                  | 20,000               | 5,989,211            | 5,840,568            | 148,643                                 |
|   | <u>8,930,000</u>     | <u>16,399,211</u>    | <u>18,934,635</u>    | <u>(2,535,424)</u>                      |
| Total expenditures                              |                      |                      |                      |   |
| Excess of revenues over<br>(under) expenditures | -                    | (7,469,211)          | (7,713,324)          | (244,113)                               |
| Other financing sources:                        |                      |                      |                      |   |
| Sale of capital assets                          | -                    | -                    | 1,665,328            | 1,665,328                               |
| Total other financing sources                   |                      |                      |                      |   |
| Beginning fund balance                          | <u>42,454,768</u>    | <u>42,454,768</u>    | <u>42,454,768</u>    | <u>-</u>                                |
| Ending fund balance                             | <u>\$ 42,454,768</u> | <u>\$ 34,985,557</u> | <u>\$ 36,406,772</u> | <u>\$ 1,421,215</u>                     |

The notes to required supplementary information are an integral part of this statement.

THE MIDLAND DEVELOPMENT CORPORATION,  
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
September 30, 2014

Budgetary Data

The annual budget is legally adopted by the MDC Board and approved by the City Council of the City of Midland (City) on a basis consistent with U.S. generally accepted accounting principles.

The MDC Board follows these procedures in establishing the budget reflected for the MDC:

1. At least sixty (60) days prior to October 1 of each year, the MDC Board, with the assistance of the MDC Treasurer, prepares and adopts a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and other such budgetary information as required by the City Council for approval and adoption.
2. The proposed budget is then submitted to the City Council for approval and is considered adopted upon formal approval by the City Council.
3. Expenditures may not exceed the appropriation for the adopted annual operating budget.
4. Supplemental appropriations during the year must be approved and adopted by the MDC Board and the City Council through passage of resolution. The reported budgetary data has been revised for amendments authorized during the year.

End of Document - Associated documents - next page





KPMG LLP  
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717 North Harwood Street  
Dallas, TX 75201-6585

**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 Directors  
The Midland Development Corporation:

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 major fund of the Midland Development Corporation (MDC), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the MDC's basic financial statements, and have issued our report thereon dated March 20, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the MDC'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 MDC's internal control. Accordingly, we do not express an opinion on the effectiveness of the MDC'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 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. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

**Finding 2014-01**

The MDC offers incentives to qualified new and existing employers who create jobs for the community. As part of this process, the MDC negotiates and executes agreements with various third party entities. Depending on the nature of the development and the related incentives offered, the contracts can range from straightforward to complex. Currently, the MDC personnel conduct and manage the day-to-day operations of the organization. The MDC personnel also negotiate the contracts and monitor ongoing



compliance with those contracts. The City supports the MDC by providing various administrative functions such as payroll and human resources. Of particular note, City personnel are responsible for maintaining the accounting books and records for the MDC. However, City personnel are not involved in the development and monitoring of contracts and are located in a separate facility from the MDC. This arrangement limits timely and effective communication and resulted in accounting misstatements in the current year.

We recommend that the City and the MDC research options to improve the process to properly account for the MDC's operations. Approaches could involve more routine and regular meetings between the City accounting personnel and the MDC or locating seasoned accounting personnel at the MDC.

#### *Management Response*

The City of Midland is continuing to research options to increase communications and to enhance the accounting for the MDC's operations. We have recently requested and have been reviewing the MDC's agenda items to ensure proper recording of commitments. Further discussion among management will continue to research and study approaches to enhance accounting for the MDC's operations.

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

As part of obtaining reasonable assurance about whether the MDC'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*.

#### **Management's Response to Finding**

Management's response to the finding identified in our audit is described previously. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the response.

#### **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 MDC'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 MDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Dallas, Texas  
March 20, 2015