



# Midland Development Corporation

A Type-A Corporation and Component Unit  
of the City of Midland, Texas

Independent Auditor's Report & Financial  
Statements

September 30, 2021



**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**September 30, 2021**

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## Independent Auditor's Report

Board of Directors  
The Midland Development Corporation  
Midland, Texas

We have audited the accompanying financial statements of the governmental activities and the major fund of the Midland Development Corporation (MDC), a component unit of the City of Midland, Texas, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Midland Development Corporation 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 management's discussion and analysis and budgetary comparison as listed in the table of contents 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.

***BKD, LLP***

Dallas, Texas  
March 11, 2022

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended September 30, 2021**

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, 2021.

***Financial Highlights***

The net position of the MDC was \$47.1 million at September 30, 2021, an increase of \$100,000 from net position as of September 30, 2020 of \$47 million.

At September 30, 2021, amounts restricted for economic development incentives in the general fund decreased from \$26.6 million at September 30, 2020 to \$25.0 million at September 30, 2021.

***Overview of the Financial Statements***

This discussion and analysis are 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.

Thus, revenues and expenses are reported in this statement for some items that will 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.

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended September 30, 2021**

***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, capital lease obligations, and capital assets, 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.

***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.

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended September 30, 2021**

***Government-wide Financial Analysis***

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At September 30, 2021, assets exceeded liabilities by \$47.1 million, an increase of \$119,000 from the September 30, 2020, amount of \$47 million. Additionally, in fiscal year 2021, the MDC had a \$627,000 decrease in total assets.

***MDC's Net Position***

	<b>Governmental Activities</b>	
	<b>2021</b>	<b>2020</b>
Current and other assets	\$ 25,695,808	\$ 27,828,258
Capital assets	<u>22,040,414</u>	<u>20,535,296</u>
Total assets	<u>47,736,222</u>	<u>48,363,554</u>
Accounts and retainage payable	514,899	1,188,106
Noncurrent liabilities	<u>134,054</u>	<u>207,671</u>
Total liabilities	<u>648,953</u>	<u>1,395,777</u>
Net investment in capital assets	21,947,057	20,305,158
Restricted for economic development	<u>25,140,212</u>	<u>26,662,619</u>
Total net position	<u>\$ 47,087,269</u>	<u>\$ 46,967,777</u>

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended September 30, 2021**

***MDC's Changes in Net Position***

	<b>Governmental Activities</b>	
	<b>2021</b>	<b>2020</b>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 976,647	\$ 1,073,373
Operating grants and contributions	-	86,539
Capital grants	-	16,502
General revenues		
Sales taxes	11,608,808	12,671,555
Investment earnings	17,035	207,618
Miscellaneous	6,620	8,805
Total revenues	<u>12,609,110</u>	<u>14,064,392</u>
<b>Expenses</b>		
General government	1,369,786	1,716,616
Economic development	11,119,832	21,880,543
Total expenses	<u>12,489,618</u>	<u>23,597,159</u>
<b>Increase (Decrease) in Net Position</b>	119,492	(9,532,767)
<b>Net Position – October 1</b>	<u>46,967,777</u>	<u>56,500,544</u>
<b>Net Position – September 30</b>	<u>\$ 47,087,269</u>	<u>\$ 46,967,777</u>

The MDC's general revenues for governmental activities provided \$11.6 million in fiscal year 2021 as compared to \$12.9 million in fiscal year 2020. This decrease is primarily attributable to a decrease in sales tax resulting from a downturn in the local economy due to lower oil prices, decreased oil and gas activity, and decreased consumer spending during the Covid-19 pandemic. The revenues were used to pay for expenses associated with general government and economic development activities of \$12.5 million in fiscal year 2021, compared to \$23.6 million in fiscal year 2020. 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 economic development activities of \$11.1 million, during the year ended September 30, 2021. Economic development activities decreased by \$10.8 million in fiscal year 2021 due to fewer prior year commitments coming due, and fewer opportunities for economic development activity during the Covid-19 pandemic.



**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended September 30, 2021**

***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 and the only fund of the MDC. Total fund balance decreased \$1.5 million from 2020 to 2021 primarily due to a decline in sales tax revenue which was offset by a decrease in economic development activities and rental revenue not included in the annual budget. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 179 percent of total general fund expenditures. \$25.0 million of the fund balance is restricted for economic development.

***General Fund Budgetary Highlights***

Actual revenues for fiscal year 2021 exceeded the final budget amount by \$3.6 million. This is primarily due to sales tax income being \$2.6 million higher than budgeted.

Differences between the final budget and actual expenditures resulted in MDC expenditures being \$8.6 million under budget for fiscal year 2021. The major sources of this variance are direct business incentives provided by the MDC, which were under budget by \$8.6 million and general government expenses being \$600,000 under budget. However, Capital Outlay was over budget by \$556,000.

There were no budgetary adjustments during fiscal year 2021.

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Management’s Discussion and Analysis (Unaudited)**  
**Year Ended September 30, 2021**

**Capital Assets**

MDC’s investment in capital assets for its governmental type activities as of September 30, 2021, amounts to \$22 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress. Major additions to capital assets in fiscal year 2021 include various improvements and buildings.

	<b>Governmental Activities</b>	
	<b>2021</b>	<b>2020</b>
Land	\$ 4,940,640	\$ 4,919,828
Buildings	12,265,038	11,704,128
Improvements other than buildings	2,397,276	1,565,730
Machinery and equipment	93,268	112,640
Infrastructure	1,065,372	1,118,949
Construction in progress	1,278,820	1,114,021
Total capital assets, net	\$ 22,040,414	\$ 20,535,296

**Debt**

The MDC has a Commercial Hangar Lease Agreement with the City of Midland for economic development purposes and to provide aviation services as permitted within the agreement. This agreement qualifies as a capital lease for accounting purposes. More detailed information about the lease may be found in the notes to the basic financial statements under *Note 7*.

**Economic Factors and Next Year’s Budgets and Rates**

The budgetary process for fiscal year 2022 focused on the allocation of resources to economic development activities and contractual payments for administration of the MDC. The budget presented for MDC operations for the 2021-2022 fiscal year totals \$21.1 million.

The fiscal year 2022 operating budget is supported by combined revenues of \$10.9 million. The major source of this revenue is sales taxes of \$10 million.

The revenue budget for the 2021-2022 fiscal year is expected to fall short of expenditures by \$10.1 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, 2021**

**Assets**

Cash and cash equivalents	\$ 23,290,284
Sales tax receivable	2,127,698
Miscellaneous receivable	60,000
Prepayments	211,247
Notes receivable	6,579
Capital assets (net of accumulated depreciation)	<u>22,040,414</u>
Total assets	<u><u>\$ 47,736,222</u></u>

**Liabilities and Net Position**

**Liabilities**

Accounts payable	\$ 514,899
Noncurrent liabilities	
Due within one year	93,931
Due in more than one year	<u>40,123</u>
Total liabilities	<u>648,953</u>

**Net Position**

Net investment in capital assets	21,947,057
Restricted for economic development	<u>25,140,212</u>
Total net position	<u>47,087,269</u>
Total liabilities net position	<u><u>\$ 47,736,222</u></u>

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Statement of Activities**  
**Year Ended September 30, 2021**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Governmental Activities</b>					
General government	\$ 1,369,786	\$ -	\$ -	\$ -	\$ (1,369,786)
Economic development	11,119,832	976,647	-	-	(10,143,185)
Total governmental activities	<u>\$ 12,489,618</u>	<u>\$ 976,647</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(11,512,971)</u>
<b>General Revenues</b>					
Sales taxes					11,608,808
Investment earnings					17,035
Miscellaneous					<u>6,620</u>
Total general revenues					<u>11,632,463</u>
Change in net position					119,492
<b>Net Position – Beginning</b>					<u>46,967,777</u>
<b>Net Position – Ending</b>					<u>\$ 47,087,269</u>

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**

**Balance Sheet – General Fund**  
**September 30, 2021**

**Assets**

Cash and cash equivalents	\$ 23,290,284
Sales tax receivable	2,127,698
Miscellaneous receivable	60,000
Prepayments	211,247
Notes receivable	6,579
	<hr/>
Total assets	<u>\$ 25,695,808</u>

**Liabilities and Fund Balance**

**Liabilities**

Accounts payable	<u>\$ 514,899</u>
Total liabilities	<hr/> 514,899

**Fund Balance**

Nonspendable	
Prepayments	211,247
Restricted	
Economic development	<u>24,969,662</u>
Total fund balance	<hr/> 25,180,909
Total liabilities and fund balance	<u>\$ 25,695,808</u>

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**September 30, 2021**

Fund balance of governmental fund	\$ 25,180,909
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	22,040,414
Long-term liabilities, including capital lease obligations and compensated absences, are not due and payable in the current period and, therefore, are not reported in the fund.	<u>(134,054)</u>
Net position of governmental activities	<u>\$ 47,087,269</u>

**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, 2021**

<b>Revenues</b>		
Sales taxes	\$	11,608,808
Interest income		17,035
Rentals		976,647
Other		<u>6,620</u>
Total revenues		<u>12,609,110</u>
<b>Expenditures</b>		
General government		
Administration		914,689
Economic development		11,119,832
Capital outlay		1,956,632
Debt service		
Capital lease		70,605
Interest		<u>6,595</u>
Total expenditures		<u>14,068,353</u>
Net change in fund balance		(1,459,243)
<b>Fund Balance, Beginning</b>		<u>26,640,152</u>
<b>Fund Balance, End</b>	<b>\$</b>	<u><u>25,180,909</u></u>

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balance to the Statement of Activities**  
**Year Ended September 30, 2021**

Net change in fund balance – governmental fund	\$	(1,459,243)
<p>Amounts reported for <i>governmental activities</i> in the  the statement of activities are different because</p>		
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.		1,505,118
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net position.		70,605
Current year changes in long-term liabilities for compensated absences required the use of current financial resources; but they are not reported as expenses in the statement of activities.		<hr style="width: 100%;"/> 3,012
Change in net position of governmental activities	\$	<hr style="width: 100%;"/> 119,492



**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Notes to Financial Statements**  
**September 30, 2021**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Reporting Entity***

The Midland Development Corporation (MDC), a component unit of the City of Midland, Texas (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.

# Midland Development Corporation A Component Unit of the City of Midland, Texas

## Notes to Financial Statements

September 30, 2021

The entirety of the MDC Board is appointed by the City Council 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.

### **Basic Financial Statements**

The basic financial 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, liabilities, 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.

### **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 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 less liabilities 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.

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.

# Midland Development Corporation

## A Component Unit of the City of Midland, Texas

### Notes to Financial Statements

September 30, 2021

Fund level financial statements are presented for the governmental fund, with a focus on the major fund. A major fund is a fund meeting certain specific asset, liability, revenue, or expenditure criteria relative to all funds of that type. The only major fund used by the MDC is the General Fund which is the only operating fund 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.

#### ***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.

#### ***Use of Estimates***

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

#### ***Equity in Cash and Investments***

The City pools a portion of the resources of its various funds and component units, including MDC, to facilitate the management of cash and enhance investment earnings. Records are maintained that reflect each fund or component unit’s equity in the pooled investments.

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**

**Notes to Financial Statements**

**September 30, 2021**

***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), TexStar, and Texas Class are considered cash equivalents as the amounts are available on demand. Investments, other than investments in TexPool, TexStar, Texas CLASS are recorded at fair value based upon verifiable market prices.

***Notes Receivable***

MDC provides loans to new and expanding businesses that meet certain qualifications aligned with MDC's purpose. In some instances, the loans are given in the form of forgivable loans and are forgiven if all requirements are met.

***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 assets purchased or acquired. Purchased or constructed assets are carried at historical cost. Contributed assets are recorded at acquisition value at the time of donation.

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

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

***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 using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments based on the criteria set forth in GASB Statement No. 16. The liability has been accrued in the government-wide statements. A liability for those amounts is recorded in the governmental fund only if the liability has matured as a result of employee resignations or retirements.

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**

**Notes to Financial Statements**

**September 30, 2021**

***Net Position***

Net position of the MDC is classified in two components on its statements of net position.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the MDC.

***Nature and Purpose of Classifications of Fund Balances***

Governmental funds fund balances classified as restricted can only be used for specific purposes pursuant to constraints imposed by state law for Type A development corporations. Fund balances classified as nonspendable include amounts that cannot be spent because they are not in a spendable form.

***Net Position/Fund Balance Flow Assumption***

It is the MDC's policy to consider restricted net position/fund balances to have been depleted before unrestricted net position/fund balances is applied.

**Note 2: Deposits, Investments, and Investment Income**

***Custodial Credit Risk – Deposits***

In the case of deposits, this is the risk that, in the event of a bank's failure, the MDC's deposits may not be returned to it. As of September 30, 2021, the MDC's bank balance not held with the City's pooled cash was \$195,423 and was fully insured as of September 30, 2021. The remainder of MDC deposits, which are combined with the City's deposits, were fully insured or collateralized as of September 30, 2021. The carrying amount of the total deposits as of September 30, 2021, was \$2,543,595.

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***Investments***

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:

***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.

***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 10 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.

***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.

***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, 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.

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***Money Market Funds***

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

***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.

***Investment Pools***

The MDC invests in three governmental pools: TexPool, TexStar, and Texas Class of which were created under the *Interlocal Cooperation Act*, Texas Government Code Ann. Ch. 791 and the Texas Government Code Ann. Ch. 2256.

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 five-member advisory board. Texas CLASS was created specifically for the use of Texas local government entities and seeks to provide safety, liquidity, convenience, and competitive rates of return. The program is designed to meet the needs of Texas public sector investors. It purchases securities that are legally permissible under state statute and available for investment by Texas counties, cities, school districts, municipal utility districts, college districts, and other public agencies. TexPool, TexStar, and Texas Class are all rated AAAM by Standard & Poor's.

Certain external investment pools and pool participants have an option to measure these investment pools at amortized cost rather than fair value if certain criteria are met. TexPool, with a balance of \$11,089,428, has opted to report at amortized cost, while TexStar, with a balance of \$8,723,419 and Texas Class, with a balance of \$933,842 measures their investments at net asset value (NAV).

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.

Investments other than investments in TexPool, TexStar, and TexClass are valued based upon quotes obtained from Interactive Data Pricing and Reference Data (IDC). As of September 30, 2021, MDC had no investments other than TexPool, TexStar, and TexClass.

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**Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits final stated maturities to ten years maximum with no more than 30 percent exceeding seven years and dollar weighted average portfolio maturity not to exceed five years in the investments listed above. The investment pools are presented as an investment with a maturity of less than one year because the average maturity of the pools is less than one year.

**Note 3: Receivables**

The receivables as of September 30, 2021, for the MDC include sales tax receivables of \$2,127,698 due from the State of Texas.

MDC provides funds to other entities in which requirements, contained within agreements between the MDC and recipients, are to be met or funds are required to be returned to the MDC. Receivables are recorded until requirements are met. At the time requirements are met, MDC reduces its receivables and recognizes economic development expenses. Notes receivable of \$6,579 at September 30, 2021, are economic development agreements with an external entity.

**Note 4: Capital Assets**

Capital assets activity for the year ended September 30, 2021:

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Ending Balance
<b>Governmental Activities</b>					
Capital assets, not being depreciated					
Land	\$ 4,919,828	\$ 20,812	\$ -	\$ -	\$ 4,940,640
Construction in progress	1,114,021	866,211	-	(701,412)	1,278,820
Total capital assets, not being depreciated	6,033,849	887,023	-	(701,412)	6,219,460
Capital assets, being depreciated					
Buildings	13,149,565	915,352	-	-	14,064,917
Improvements other than buildings	1,744,365	154,257	-	701,412	2,600,034
Machinery and equipment	162,581	-	-	-	162,581
Infrastructure	1,362,237	-	-	-	1,362,237
Total capital assets, being depreciated	16,418,748	1,069,609	-	701,412	18,189,769
Less accumulated depreciation for					
Buildings	(1,445,437)	(354,442)	-	-	(1,799,879)
Improvements other than buildings	(178,635)	(24,123)	-	-	(202,758)
Machinery and equipment	(49,941)	(19,372)	-	-	(69,313)
Infrastructure	(243,288)	(53,577)	-	-	(296,865)
Total accumulated depreciation	(1,917,301)	(451,514)	-	-	(2,368,815)
Total capital assets, being depreciated, net	14,501,447	618,095	-	701,412	15,820,954
Governmental activities capital assets, net	\$ 20,535,296	\$ 1,505,118	\$ -	\$ -	\$ 22,040,414



# Midland Development Corporation

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### Notes to Financial Statements

September 30, 2021

Depreciation expense of \$451,514 was charged to the economic development function/program of the governmental activities.

#### Note 5: Employee Benefit Plan

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 percent 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 percent of each participant's total annual compensation. The MDC contributed a total of \$25,258 to the plan during fiscal year 2021.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in MDC contributions at 25 percent after one year of eligible service, 50 percent after two years, 75 percent after three years, and 100 percent after four years of eligible. Nonvested MDC contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses. There were no forfeitures during 2021.

#### Note 6: Long-term Obligations

The following is a summary of long-term obligation transactions for the MDC for the year ended September 30, 2021:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Compensated absences	\$ 43,709	\$ 37,962	\$ (40,974)	\$ 40,697	\$ 28,081
Capital lease	163,962	-	(70,605)	93,357	65,850
Governmental activities long-term liabilities	<u>\$ 207,671</u>	<u>\$ 37,962</u>	<u>\$ (111,579)</u>	<u>\$ 134,054</u>	<u>\$ 93,931</u>

#### Note 7: Capital Lease Liabilities

The MDC has a Commercial Hangar Lease Agreement with the City of Midland for economic development purposes and to provide aviation services as permitted within the agreement. This agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

**Midland Development Corporation**  
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**Notes to Financial Statements**

**September 30, 2021**

A summary of assets acquired through capital lease is as follows:

Buildings	\$	429,994
Less: Accumulated depreciation		<u>(366,636)</u>
	\$	<u><u>63,358</u></u>

Future minimum lease obligations and the net present value of these payments as of September 30, 2021, were as follows:

<u><b>Fiscal Year Ending September 30,</b></u>		
2022	\$	77,199
2023		<u>19,300</u>
Total minimum lease payments		96,499
Less interest at 5.00%		<u>(3,142)</u>
	\$	<u><u>93,357</u></u>

A portion of the leased space is subleased under two leases expiring over the next 13 to 14 years. Current year income for these leases was \$976,647. Per the terms of sublease agreements, MDC will rebate or abate a portion of the sublessee's rent for the first three to five years of the lease if they meet certain conditions related to economic development. For the year ended September 30, 2021, \$1,072,185 was rebated or abated.

Minimum future rentals receivable, prior to rebates or abatements, under operating subleases at September 30, 2021, were as follows:

<u><b>Fiscal Year Ending September 30,</b></u>		
2022	\$	1,363,550
2023		1,363,550
2024		1,363,550
2025		1,363,550
2026		1,363,550
2027-2031		6,817,748
2032-2035		<u>2,702,380</u>
	\$	<u><u>16,337,878</u></u>

**Midland Development Corporation**  
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**Notes to Financial Statements**  
**September 30, 2021**

**Note 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. As of September 30, 2021, there were no claims outstanding. There has been no significant reduction in coverage from 2020 to 2021; nor have settlement amounts exceeded coverage for each of the past three years.

**Note 9: Commitments and Contingencies**

***Litigation***

No legal action arose in the ordinary course of the MDC's business during the fiscal year ended September 30, 2021.

***Commitments***

At September 30, 2021, the MDC had contracts for economic development commitments of \$15,015,125.

**Note 10: Related Party Transactions**

A majority of the MDC board is appointed by the City and the City can impose its will upon MDC. Accordingly, MDC is a discretely presented component unit of the City.

The City allocates to the MDC an indirect cost percentage of administrative services for the MDC but paid through the City along with other indirect costs deemed necessary for operations. During the fiscal year ended September 30, 2021, the City's was reimbursed \$390,685 for these services.

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**September 30, 2021**

**Note 11: Future Change in Accounting Principle**

The Governmental Accounting Standards Board (GASB) issued its Statement No. 87 (GASB 87), *Leases*. This new Statement establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. GASB 87 includes the accounting guidance for both lessees and lessors. The MDC expects to first apply GASB 87 during the year ending September 30, 2022, using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The impact of applying the Statement has not been determined.

The GASB also issued its Statement No. 96 (GASB 96), *Subscription-Based Information Technology Agreements*. This new statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. This statement will become effective for MDC's fiscal year ending September 30, 2023. The impact of applying the Statement has not been determined.

## **Required Supplementary Information**

**Midland Development Corporation**  
**A Component Unit of the City of Midland, Texas**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance –**  
**Budget and Actual – General Fund**  
**Year Ended September 30, 2021**

	<b>Original / Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>			
Sales taxes	\$ 9,000,000	\$ 11,608,808	\$ 2,608,808
Interest income	-	17,035	17,035
Rentals	-	976,647	976,647
Other	-	6,620	6,620
	<u>9,000,000</u>	<u>12,609,110</u>	<u>3,609,110</u>
<b>Expenditures</b>			
General government	1,526,867	914,689	612,178
Economic development	19,657,948	11,119,832	8,538,116
Capital outlay	1,400,000	1,956,632	(556,632)
Debt service	72,000	77,200	(5,200)
	<u>22,656,815</u>	<u>14,068,353</u>	<u>8,588,462</u>
Deficiencies of revenues under expenditures	<u>(13,656,815)</u>	<u>(1,459,243)</u>	<u>12,197,572</u>
Net change in fund balance	(13,656,815)	(1,459,243)	12,197,572
<b>Fund Balance, Beginning</b>	<u>26,640,152</u>	<u>26,640,152</u>	<u>-</u>
<b>Fund Balance, Ending</b>	<u>\$ 12,983,337</u>	<u>\$ 25,180,909</u>	<u>\$ 12,197,572</u>

**Midland Development Corporation**  
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**Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balance –**  
**Budget and Actual – General Fund**  
**Year Ended September 30, 2021**

***Notes to Schedule:***

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.