



Midland Development Corporation

A Component Unit of the City of Midland, Texas

Independent Auditor's Report and Financial Statements

September 30, 2024



Midland Development Corporation
A Component Unit of the City of Midland, Texas
September 30, 2024

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Independent Auditor's Report

Board of Directors
The Midland Development Corporation
Midland, Texas

Opinions

We have audited the financial statements of the governmental activities and the major fund of the Midland Development Corporation (MDC), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the MDC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 MDC, as of September 30, 2024, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the MDC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the MDC's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MDC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the MDC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Forvis Mazars, LLP

**Dallas, Texas
March 21, 2025**

**Midland Development Corporation
A Component Unit of the City of Midland, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2024**

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, 2024.

Financial Highlights

The net position of the MDC was \$69.5 million at September 30, 2024, an increase of \$9.2 million from the prior year net position as of September 30, 2023, of \$60.3 million.

At September 30, 2024, amounts restricted for economic development activities in the general fund increased from \$34.1 million at September 30, 2023, to \$42.8 million at September 30, 2024.

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.

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.

Midland Development Corporation
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Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2024

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, 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.

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, 2024, assets exceeded liabilities by \$69.5 million, an increase of \$9.2 million from the September 30, 2023, amount of \$60.3 million. In fiscal year 2024, the MDC had a \$6.1 million increase in total assets, due to a strong year operationally. Additionally, a tenant terminated a lease in 2024, which resulted in a decrease in lease receivable and related deferred inflows of resources. MDC recognized a \$43,762 loss as a result of this termination.

MDC's Net Position

	Governmental Activities	
	2024	2023
Current and other assets	\$ 43,418,643	\$ 38,691,168
Capital and lease assets, net	28,181,792	26,793,549
Total assets	71,600,435	65,484,717
Accounts and retainage payable	525,614	321,756
Noncurrent liabilities	1,526,935	769,738
Total liabilities	2,052,549	1,091,494
Deferred inflows of resources	-	4,130,951
Net investment in capital assets	26,369,357	25,861,876
Restricted for economic development	43,178,529	34,400,396
Total net position	\$ 69,547,886	\$ 60,262,272

Midland Development Corporation
A Component Unit of the City of Midland, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2024

MDC's Changes in Net Position

	Governmental Activities	
	2024	2023
Revenues		
Program revenues		
Charges for services	\$ 976,743	\$ 976,744
Operating grants and contributions	65,000	-
General revenues		
Sales taxes	16,650,471	17,214,306
Investment earnings	1,305,040	907,536
Miscellaneous	6,010	434,284
Total Revenues	19,003,264	19,532,870
Expenses		
General government	1,005,723	1,057,244
Economic development	8,711,927	12,167,111
Total Expenses	9,717,650	13,224,355
Increase in Net Position	9,285,614	6,308,515
Net Position – October 1	60,262,272	53,953,757
Net Position – September 30	\$ 69,547,886	\$ 60,262,272

The MDC's general revenues for governmental activities provided \$18.0 million in fiscal year 2024 as compared to \$18.6 million in fiscal year 2023. This decrease is primarily attributable to a slight decrease in local spending reflecting national economic volatility and uncertainty. Additionally, investment earnings continued to improve as the portfolio earned higher interest rates throughout fiscal year 2024. The revenues were used to pay for expenses associated with general government and economic development activities of \$9.7 million in fiscal year 2024, compared to \$13.2 million in fiscal year 2023. The decrease in economic development activities was driven by anticipation of substantial activities in upcoming years. Governmental activities are not self-supporting and are paid for through general revenues.

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.

Midland Development Corporation
A Component Unit of the City of Midland, Texas
Management’s Discussion and Analysis (Unaudited)
Year Ended September 30, 2024

The general fund is the chief operating fund and the only fund of the MDC. Total fund balance increased \$8.6 million from 2023 to 2024 primarily due to an increase investment earnings and a decrease in economic development activities and capital outlay. Economic development activities will fluctuate from year to year. MDC has approximately \$84 million in commitments at September 30, 2024, which will be expensed as requirements are satisfied by the applicable third party. 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 380% of total general fund expenditures. Most of the \$42.9 million fund balance is restricted for economic development.

General Fund Budgetary Highlights

Actual revenues for fiscal year 2024 exceeded the final budget amount by \$5.9 million. This is primarily due to sales tax income being \$4.6 million higher than budgeted and investment earnings are not budgeted.

Differences between the final budget and actual expenditures resulted in MDC expenditures being \$15.3 million under budget for fiscal year 2024. The major sources of this variance are direct business incentives provided by the MDC, which were under budget by \$15.6 million and general government expenditures being \$1.9 million under budget.

There were no budgetary adjustments during fiscal year 2024.

Capital and Lease Assets

MDC’s investment in capital and lease assets for its governmental type activities as of September 30, 2024, amounts to \$28.2 million (net of accumulated depreciation and amortization). This investment in capital and lease assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, lease assets, and construction in progress.

	Governmental Activities	
	2024	2023
Land	\$ 13,239,334	\$ 13,239,334
Buildings	8,037,968	8,265,441
Improvements other than buildings	3,185,821	2,471,791
Machinery and equipment	35,152	54,524
Infrastructure	904,642	958,219
Lease assets	1,471,282	724,449
Construction in progress	1,307,593	1,079,791
Total capital and lease assets, net	<u>\$ 28,181,792</u>	<u>\$ 26,793,549</u>

Major capital asset events during the current fiscal year included the following:

- Extended the hangar lease with the City.

Additional information on MDC’s capital assets can be found in the notes to financial statements.

Economic Factors and Next Year’s Budgets and Rates

The budgetary process for fiscal year 2025 focused on the allocation of resources to economic development activities, MDC’s assets, and contractual payments for administration of the MDC. The budget presented for MDC operations for the 2024-2025 fiscal year totals \$14.9 million.

Midland Development Corporation
A Component Unit of the City of Midland, Texas
Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2024

The fiscal year 2025 operating budget is supported by combined revenues of \$14.9 million. The major source of this revenue is sales tax of \$14 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, 2024

ASSETS

Cash and cash equivalents	\$	34,453,673
Investments		5,961,285
Sales tax receivable		2,778,885
Interest and dividends receivable		83,500
Prepayments		134,721
Notes receivable		6,579
Capital and lease assets (net of accumulated depreciation and amortization)		<u>28,181,792</u>

Total Assets	\$	<u>71,600,435</u>
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LIABILITIES AND NET POSITION

Liabilities

Accounts payable	\$	392,733
Accrued interest		2,681
Retainage payable		130,200
Noncurrent liabilities		
Due within one year		193,464
Due in more than one year		<u>1,333,471</u>

Total Liabilities		<u>2,052,549</u>
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Net Position

Net investment in capital assets		26,369,357
Restricted for economic development		<u>43,178,529</u>

Total Net Position		<u>69,547,886</u>
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Total Liabilities and Net Position	\$	<u>71,600,435</u>
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Midland Development Corporation
A Component Unit of the City of Midland, Texas
Statement of Activities
Year Ended September 30, 2024

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General government	\$ 1,005,723	\$ -	\$ -	\$ -	\$ (1,005,723)
Economic development	<u>8,711,927</u>	<u>976,743</u>	<u>65,000</u>	<u>-</u>	<u>(7,670,184)</u>
Total Governmental Activities	<u>\$ 9,717,650</u>	<u>\$ 976,743</u>	<u>\$ 65,000</u>	<u>\$ -</u>	<u>(8,675,907)</u>
General Revenues					
Sales taxes					16,650,471
Investment earnings					1,305,040
Miscellaneous					<u>6,010</u>
Total General Revenues					<u>17,961,521</u>
Change in net position					9,285,614
Net Position, Beginning					<u>60,262,272</u>
Net Position, Ending					<u>\$ 69,547,886</u>

Midland Development Corporation
A Component Unit of the City of Midland, Texas
Balance Sheet – General Fund
September 30, 2024

ASSETS

Cash and cash equivalents	\$	34,453,673
Investments		5,961,285
Sales tax receivable		2,778,885
Interest and dividends receivable		83,500
Prepayments		134,721
Notes receivable		6,579
Total Assets	\$	43,418,643

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	392,733
Retainage payable		130,200
Total Liabilities		522,933

Fund Balance

Nonspendable		
Prepayments		134,721
Restricted		
Economic development		42,760,989
Total Fund Balance		42,895,710

Total Liabilities and Fund Balance	\$	43,418,643
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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, 2024

Fund balance of governmental fund	\$ 42,895,710
Amounts reported for governmental activities in the statement of net position are different because	
Capital and lease assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	28,181,792
Long-term liabilities, including lease obligations and compensated absences, are not due and payable in the current period and, therefore, are not reported in the fund.	(1,526,935)
Interest payable on lease obligations does not require current financial resources, therefore, interest payable is not reported as a liability in the governmental fund's balance sheet.	(2,681)
Net position of governmental activities	<u>\$ 69,547,886</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, 2024

Revenues	
Sales taxes	\$ 16,650,471
Investment earnings	1,305,040
Rentals	976,743
Other	6,010
Intergovernmental	<u>65,000</u>
Total Revenues	<u>19,003,264</u>
Expenditures	
General government	
Administration	969,469
Economic development	8,171,267
Capital outlay	1,931,130
Debt service	
Lease payments	169,355
Interest	<u>33,573</u>
Total Expenditures	<u>11,274,794</u>
Excess of Revenues Over Expenditures	<u>7,728,470</u>
Other Financing Sources	
Leases (as lessee)	<u>928,779</u>
Net Change in Fund Balance	8,657,249
Fund Balance, Beginning of Year	<u>34,238,461</u>
Fund Balance, End of Year	<u><u>\$ 42,895,710</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, 2024

Net change in fund balance – governmental fund	\$ 8,657,249
Amounts reported for <i>governmental activities</i> in the 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 and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.	1,388,243
The repayment of the principal on leases consumes the current financial resources of governmental funds, but has no effect on net position.	169,355
The issuance of long-term debt (e.g., leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of the differences in the treatment of long-term debt.	(928,779)
Current year change in accrued interest payable does not require the use of current financial resources; and is not reported as an expense in governmental activities.	(2,681)
Current year changes in long-term liabilities for compensated absences required the use of current financial resources; therefore, they are not reported as expenses in the statement of activities.	2,227
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Change in net position of governmental activities	<u>\$ 9,285,614</u>

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.

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.

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.

Midland Development Corporation
A Component Unit of the City of Midland, Texas
Notes to Financial Statements
September 30, 2024

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, except for compensated absences and lease liabilities, which are recorded only when due. 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, 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.

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 and Lease Assets

Capital and lease 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 (\$15,000 for leased assets) 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 and lease assets are depreciated or amortized using the straight line method over the following estimated useful lives, or the lease term, whichever is shorter:

Buildings	40 years
Improvements other than buildings	20 years
Machinery and equipment	6 years
Furniture and fixtures	50 years

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.

Lease Payable

The MDC is a lessee for noncancellable leases. The MDC recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the financial statements. The MDC recognizes a lease assets and related liability with an initial, individual value of \$15,000 or more. At the commencement of a lease, the MDC initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. The lease asset is amortized on a straight-line basis over the shorter of its useful life or lease term.

The MDC monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

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, 2024, the MDC's bank balance not held with the City's pooled cash was \$134,287 and was fully insured as of September 30, 2024. The remainder of MDC deposits, which are combined with the City's deposits, were fully insured or collateralized as of September 30, 2024. The carrying amount of the total deposits as of September 30, 2024, was \$17,506,701.

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In addition to these bank balances, Wells Fargo Bank serves as custodian for the City's eligible federal treasury and agency securities and municipal bonds and MDC's share is \$5,961,285 at September 30, 2024.

Investments

Investments, other than balances in government investment pools, are carried at fair value. 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.

Money Market Funds

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

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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 investment pools; TexStar, Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS), and the Texas Local Government Investment Pool (TexPool), which were created under the *Interlocal Cooperation Act*, Texas Government Code Ann. Ch. 791, and the Texas Government Code Ann. Ch. 2256. TexStar and Texas CLASS are rated AAAM and seeks to maintain a constant net asset value of \$1.00. TexPool is also rated AAAM, and balances are reported at amortized cost. Investments in the pools are considered to be cash equivalents when preparing these financial statements.

The Texas Treasury Safekeeping Trust Company (Trust) 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. chapter 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 is supervised by a Board of Trustees (Board) who are elected by the Participants and shall be an odd number of three or more. Additionally, Texas CLASS has a five-member Advisory Board. Fair value of the MDC's position in the 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.

Credit Risk

In compliance with the MDC's investment policy, as of September 30, 2024, the 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 investment pools (which represent approximately 74% of the portfolio) are rated AAAM by Standard and Poor's. The Federal National Mortgage Association, Federal Home Loan Bank notes, and Federal Home Loan Mortgage Corporation obligations were all rated AAA by Standard and Poor's.

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% 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.

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The MDC's investments carried at fair value as of September 30, 2024, are:

Investments	Fair Value	Weighted-Average Maturity (in Years)	Credit Risk
FHLB	\$ 3,624,522	6.25	AAA
FNMA	207,560	6.60	AAA
FHLMC	980,011	5.00	AAA
FFCB	1,129,728	8.50	AAA
Municipal bonds	19,464	6.00	AAA
TexPool	6,370,313	0.25	AAAm
TexStar	5,091,316	0.19	AAAm
Texas CLASS	5,485,343	0.23	AAAm
Total	<u>\$ 22,908,257</u>	3.22	

Concentration of Credit Risk

The MDC'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. At September 30, 2024, more than 5% of the MDC investments are in the following investments:

Investment	Amount
FHLB	\$ 3,624,522
TexPool	6,370,313
TexStar	5,091,316
Texas CLASS	5,485,343

Fair Value of Investments

The MDC measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles (GAAP). These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1** Quoted prices for identical investments in active markets;
- Level 2** Observable inputs other than those in Level 1; and
- Level 3** Unobservable inputs, if any.

Debt securities classified as Level 1 are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 are normally valued based on price data obtained from observed transactions and market price quotations from broker dealers and/or pricing vendors. The MDC has no Level 3 investments at September 30, 2024.

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The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2024:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. agency securities	\$ 5,941,821	\$ -	\$ 5,941,821	\$ -
Municipal bonds	19,464	-	19,464	-
Total investments by fair value level	<u>5,961,285</u>	<u>\$ -</u>	<u>\$ 5,961,285</u>	<u>\$ -</u>
Investments measured at net asset value				
TexStar	5,091,316			
TexClass	<u>5,485,343</u>			
Total investments at net asset value	<u>10,576,659</u>			
Investments measured at amortized cost				
TexPool	<u>6,370,313</u>			
Total investments at amortized cost	<u>6,370,313</u>			
Total investments	<u>\$ 22,908,257</u>			

Note 3. Receivables

The receivables as of September 30, 2024, for the MDC include sales tax receivables of \$2,778,885 due from the State of Texas and interest and dividends receivable of \$83,500.

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, 2024, are economic development agreements with the City of Midland.

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September 30, 2024

Note 4. Capital Assets

Capital assets activity for the year ended September 30, 2024:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ Adjustments</u>	<u>Ending Balance</u>
Governmental Activities					
Capital assets, not being depreciated					
Land	\$ 13,239,334	\$ -	\$ -	\$ -	\$ 13,239,334
Construction in progress	1,079,791	227,802	-	-	1,307,593
Total capital assets, not being depreciated	14,319,125	227,802	-	-	14,546,927
Capital and lease assets, being depreciated/amortized					
Buildings	10,011,046	-	-	-	10,011,046
Improvements other than buildings	2,746,714	774,549	-	-	3,521,263
Machinery and equipment	162,581	-	-	-	162,581
Lease asset	902,585	928,779	-	-	1,831,364
Infrastructure	1,362,237	-	-	-	1,362,237
Total capital and lease assets, being depreciated/amortized	15,185,163	1,703,328	-	-	16,888,491
Less accumulated depreciation/amortization for					
Buildings	(1,745,605)	(227,473)	-	-	(1,973,078)
Improvements other than buildings	(274,923)	(60,519)	-	-	(335,442)
Machinery and equipment	(108,057)	(19,372)	-	-	(127,429)
Lease asset	(178,136)	(181,946)	-	-	(360,082)
Infrastructure	(404,018)	(53,577)	-	-	(457,595)
Total accumulated depreciation/amortization	(2,710,739)	(542,887)	-	-	(3,253,626)
Total capital and lease assets, being depreciated/amortized, net	12,474,424	1,160,441	-	-	13,634,865
Governmental activities capital and lease assets, net	<u>\$ 26,793,549</u>	<u>\$ 1,388,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,181,792</u>

Depreciation and amortization expense of \$542,887 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 makes a matching contribution of up to 7% 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 contributed a total of \$19,838 to the plan during fiscal year 2024.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in MDC contributions at 25% after one year of eligible service, 50% after two years, 75% after three years, and 100% 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 2024.

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Notes to Financial Statements
September 30, 2024

Note 6. Long-term Obligations

The following is a summary of long-term obligation transactions for the MDC for the year ended September 30, 2024:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ 33,601	\$ 28,376	\$ (30,603)	\$ 31,374	\$ 21,649
Lease liability – primary government	523,818	928,779	(17,553)	1,435,044	17,774
Lease liability	212,319		(151,802)	60,517	154,041
Governmental Activities Long-term Liabilities	<u>\$ 769,738</u>	<u>\$ 957,155</u>	<u>\$ (199,958)</u>	<u>\$ 1,526,935</u>	<u>\$ 193,464</u>

Note 7. Leases

Leases Liability

The MDC has agreements for buildings, a hanger, and land, the terms of which expire in various years through 2049. During the fiscal year ended September 30, 2024, the MDC did not recognize any rental expense for variable payments not previously included in the measurement of the lease liability.

Two of the lease agreements for the hangar and land at the airport are with the City and have an ending lease liability balance of \$1,435,044 at September 30, 2024.

The following is a schedule by year of payments under the leases as of September 30, 2024:

Fiscal Year Ending September 30,	Principal	Interest	Total
2025	\$ 171,815	\$ 30,751	\$ 202,566
2026	176,640	27,588	204,228
2027	106,551	24,549	131,100
2028	109,421	21,679	131,100
2029	112,373	18,727	131,100
2030-2034	500,626	47,774	548,400
2035-2039	103,256	16,744	120,000
2040-2044	109,912	10,088	120,000
2045-2049	104,967	3,034	108,001
	<u>\$ 1,495,561</u>	<u>\$ 200,934</u>	<u>\$ 1,696,495</u>

Midland Development Corporation
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Notes to Financial Statements
September 30, 2024

Regulated Leases

In accordance with GASB 87, the MDC does not recognize a lease receivable and a deferred inflow of resources for regulated leases in which the MDC is the lessor. Regulated leases are certain leases that are subject to external laws, regulation, or legal rulings, e.g., the U.S. Department of Transportation and the Federal Aviation Administration, between airports and air carriers and other aeronautical users. The MDC has a regulated lease related to a sublease at the City of Midland's regional airport. The lease is for use of the land leased by MDC and subsequently subleased to the tenant. The tenant constructs or improves, owns, and maintains all the improvements on the land. This lease allows access to the land for aeronautical use. At the end of the ground lease, the improvements revert to City ownership. The revenue recognized for the lease during the fiscal year ended September 30, 2024, was \$976,644.

The future lease receipts for the MDC regulated lease as of September 30, 2024, were as follows:

Fiscal Year Ending September 30,	Payment
2025	\$ 976,644
2026	976,644
2027	976,644
2028	976,644
2029	976,644
2030-2034	<u>3,987,963</u>
Total minimum lease payments	<u>\$ 8,871,183</u>

Note 8. Risk Management

The MDC is exposed to various risks of loss related to torts, property damage, errors and omissions, and various employee related matters. Risks other than those related to torts, are covered by commercial insurance. 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, 2024, there were no claims outstanding. There has been no significant reduction in coverage from 2023 to 2024; 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, 2024.

Commitments

At September 30, 2024, the MDC had contracts for economic development commitments of approximately \$84,000,000 with the majority due over the next six years if various conditions are satisfied by the third parties.

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, 2024, the City was reimbursed \$444,960 for these services.

Note 11. Future Change in Accounting Principle

GASB issued its Statement No. 101, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences under a unified model. It defines compensated absences and requires that liabilities be recognized for leave for which employees may receive one or more: cash payments when the leave is used for time off; other cash payments, such as payment for unused leave upon termination of employment which includes a voluntary resignation or retirement; or noncash settlements. Such as conversion to defined benefit postemployment benefits. GASB 101 also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. GASB 101 amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The MDC expects to first apply GASB 101 during the year ending September 30, 2025. The impact of applying the Statement has not been determined.

GASB also issued its Statement No. 102, *Certain Risk Disclosures*. This statement requires governments to disclose information about certain concentrations or constraints that could affect services provided or the ability to meet obligations as they come due. The MDC expects to first apply GASB 102 during the year ending September 30, 2025. The impact of applying the Statement has not been determined.

GASB Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve the financial reporting model by standardizing the presentation for various matters within governmental financial statements. The purpose is to eliminate diversity practice and improve comparability. The requirements of this Statement will take effect for the MDC's fiscal year 2026. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to improve disclosures related to certain types of capital assets. The purpose is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement will take effect for the MDC's fiscal year 2026. Management has not yet determined the impact of this Statement on its financial statements.

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, 2024

	Original / Final Budget	Actual	Variance
Revenues			
Sales taxes	\$ 12,000,000	\$ 16,650,471	\$ 4,650,471
Investment earnings	-	1,305,040	1,305,040
Rentals	976,644	976,743	99
Other	-	6,010	6,010
Intergovernmental	-	65,000	65,000
Total Revenues	<u>12,976,644</u>	<u>19,003,264</u>	<u>6,026,620</u>
Expenditures			
General government	2,862,049	969,469	1,892,580
Economic development	23,721,757	8,171,267	15,550,490
Capital outlay	-	1,931,130	(1,931,130)
Debt service	-	202,928	(202,928)
Total Expenditures	<u>26,583,806</u>	<u>11,274,794</u>	<u>15,309,012</u>
Excess (deficiencies) of revenues over (under) expenditures	<u>(13,607,162)</u>	<u>7,728,470</u>	<u>21,335,632</u>
Other Financing Sources			
Leases issued	-	928,779	928,779
Total Other Financing Sources	<u>-</u>	<u>928,779</u>	<u>928,779</u>
Net Change in Fund Balance	<u>(13,607,162)</u>	<u>8,657,249</u>	<u>22,264,411</u>
Fund Balance, Beginning	<u>34,238,461</u>	<u>34,238,461</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 20,631,299</u>	<u>\$ 42,895,710</u>	<u>\$ 22,264,411</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, 2024**

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.