



**THE MIDLAND DEVELOPMENT
CORPORATION,**

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

BASIC FINANCIAL STATEMENTS

FOR YEAR ENDED

SEPTEMBER 30, 2015

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

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Independent Auditors' Report

The Board of Directors
The Midland Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Midland Development Corporation (MDC) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the MDC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Midland Development Corporation,



as of September 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and other required supplementary information 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2016 on our consideration of the MDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MDC's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
March 30, 2016

THE MIDLAND DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015
(unaudited)

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, 2015.

Financial Highlights

The net position of the MDC was \$48.58 million at September 30, 2015, an increase of \$1.04 million from the September 30, 2014 level of \$47.54 million.

At September 30, 2015, unassigned fund balance for the general fund was \$15.27 million, a decrease of \$0.46 million from the September 30, 2014 level of \$15.73 million. Amounts restricted for economic development incentives in the general fund increased from \$17.76 million at September 30, 2014 to \$18.73 million at September 30, 2015.

The MDC has no debt.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
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(unaudited)

Government-Wide Financial Statements (continued)

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

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

Fund Financial Statements

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

Governmental Fund

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

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

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

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015
(unaudited)

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the MDC, assets exceed liabilities at September 30, 2015 by \$48.58 million, an increase of \$1.04 million from the September 30, 2014 amount of \$47.54 million. Direct business incentives of \$6.2 million lower than originally budgeted had a major impact on net position. Sales tax revenues that were \$0.14 million higher than budgeted due to an economy affected by lower oil prices also contributed to the increase.

Table 1
MDC's Net Assets
(In Thousands)

	Governmental Activities	
	2015	2014
Current and other assets	\$ 37,221	\$ 39,513
Capital assets	12,684	11,173
Total assets	49,905	50,686
Liabilities	1,321	3,145
Total liabilities	1,321	3,145
Net position:		
Investment in capital assets	12,684	11,173
Restricted for economic development incentives	18,731	17,763
Unrestricted	17,169	18,605
Total net position	\$ 48,584	\$ 47,541

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015
(unaudited)

Government-Wide Financial Analysis (continued)

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

	Governmental Activities	
	2015	2014
Revenues:		
General revenues:		
Sales taxes	\$ 10,736	\$ 11,194
Other	17	220
Total revenues	<u>10,753</u>	<u>11,414</u>
Expenses:		
General government	1,761	1,545
Economic development	7,949	11,592
Total expenses	<u>9,710</u>	<u>13,137</u>
Increase in net assets	1,043	(1,723)
Net position – October 1	47,541	49,264
Net position – September 30	<u>\$ 48,584</u>	<u>\$ 47,541</u>

Governmental Activities

Table 3
MDC's General Revenues
(in Thousands)

	Governmental Activities	
	2015	2014
Sales taxes	\$ 10,736	\$ 11,194
Investment earnings	8	7
Other	9	213
Total general revenues	<u>\$ 10,753</u>	<u>\$ 11,414</u>

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015
(unaudited)

Governmental Activities (continued)

The MDC's general revenues for governmental activities provided \$10.8 million in fiscal year 2015 as compared to \$11.4 million in fiscal year 2014. The decrease is related to sales tax revenue that was \$0.5 million less than fiscal year 2014 and a one-time gain on sale of assets of \$0.2 million in 2014. The revenues were used to pay for expenses associated with general government and economic development activities of \$9.7 million in fiscal year 2015, compared to \$13.1 million in fiscal year 2014. Governmental activities are not self-supporting and are paid for through general revenues.

The most significant expense items of the MDC governmental activities are those associated with providing for the contractual obligations for administration, marketing and promotion, payments to taxing units, and depreciation, \$1.7 million, and economic development activities, \$7.9 million, during the year ended September 30, 2015.

Financial Analysis of the Governmental Fund

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

Governmental Fund

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

The general fund is the chief operating fund of the MDC. At the end of the current fiscal year, unassigned fund balance was \$15.3 million, as compared to \$15.7 million at the close of fiscal year 2014. Although 2015 revenues decreased \$0.6 million, expenditures also decreased, leaving total fund balance unchanged at \$36.4 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance currently represents 142% of total General Fund expenditures, while total fund balance represents 337% of that same amount.

\$2.4 million of the fund balance is committed to promotional activities. An additional \$18.7 million is restricted to economic development contracts in place at September 30, 2015 to provide economic development assistance to multiple entities.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(unaudited)

General Fund Budgetary Highlights

Differences between the final budget and actual expenditures resulted in MDC expenditures being \$5.6 million under budget for fiscal year 2015. The major source of this variance is direct business incentives provided by the MDC that were \$6.3 million under budget.

Budgetary adjustments during fiscal year 2015 included an increase to capital outlay of \$7.1 million and \$0.1 million in consulting fees. Actual-on-a-budgetary-basis expenditures were \$10.8 million compared to the final budget amount of \$16.4 million.

The MDC has an actual-on-a-budgetary-basis General Fund balance of \$36.4 million unchanged from the previous year.

Capital Assets

MDC's investment in capital assets for its governmental type activities as of September 30, 2015 amounts to \$12.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and infrastructure.

MDC's construction in progress during 2015 included year to date expenditures of \$2.9 million for the Orbital Outfitters Facility, \$1.5 million for the Altitude Chamber and \$1.5 million for the MDC Hangar Improvements project.

Table 4
MDC's Capital Assets at September 30, 2015
(Net of Depreciation, in Thousands)

	Governmental Activities	
	2015	2014
Land	\$ 4,425	\$ 4,425
Buildings	1,790	-
Improvements other than building	113	124
Machinery and equipment	11	14
Infrastructure	388	398
Construction in progress	5,957	6,212
Total capital assets	\$ 12,684	\$ 11,173

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015
(unaudited)

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 footnotes section of this document.

Economic Factors And Next Year's Budgets And Rates

The budgetary process for fiscal year 2016 focused on the allocation of limited resources to economic development activities and contractual payments for administration of the MDC. The budget presented for all MDC operations for the 2015–2016 fiscal year totals \$7.2 million.

The fiscal year 2016 operating budget is supported by combined revenues of \$7.5 million. The major source of this revenue will be \$7.5 million in sales tax collections.

Sales tax receipts are driven by numerous economic conditions. Particularly influenced by oil and gas activity, sales taxes for fiscal year 2015 began to slow as the price of oil lowered. Fiscal year 2016 sales tax receipts are budgeted at \$3.1 million less than the fiscal year 2015 budget, and less than the fiscal year 2015 actual receipts.

The expenditures budget for the General Fund is \$7.2 million. The revenue budget for the 2015–2016 fiscal year is expected to exceed expenditures by \$0.3 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. Lorraine, Midland, TX 79702-1152.

MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
STATEMENT OF NET POSITION
September 30, 2015

Assets

Cash and cash equivalents	\$ 27,575,238
Sales tax receivable	1,672,129
Accounts receivable	4,245
Capital assets (net of accumulated depreciation)	12,684,488
Due from primary government	6,162,497
Notes receivable	<u>1,806,579</u>
 Total assets	 <u>49,905,176</u>

Liabilities

Accounts payable	52,744
Retainage payable	<u>797,880</u>
Noncurrent liabilities:	
Due within one year	66,310
Due in more than one year	<u>404,027</u>
 Total liabilities	 <u>1,320,961</u>

Net Position

Net investment in capital assets	12,684,488
Restricted for economic development incentives	18,730,837
Unrestricted	<u>17,168,890</u>
 Total net position	 <u>\$ 48,584,215</u>

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

MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Primary government:</u>		<u>Governmental Activities</u>
Governmental activities:		
General government	\$ 1,759,645	\$ (1,759,645)
Economic development	<u>7,949,448</u>	<u>(7,949,448)</u>
Total governmental activities	<u>9,709,093</u>	<u>(9,709,093)</u>
	General revenues:	
	Sales taxes	10,735,647
	Investment earnings	7,677
	Miscellaneous	<u>8,966</u>
	Total general revenues	<u>10,752,290</u>
	Change in net position	<u>1,043,197</u>
	Net position – beginning	47,541,018
	Net position – ending	<u><u>\$ 48,584,215</u></u>

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

MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
BALANCE SHEET
GENERAL FUND
September 30, 2015

	General	Total Governmental Funds
<u>Assets</u>		
Cash and cash equivalents	\$ 27,575,238	\$ 27,575,238
Sales tax receivable	1,672,129	1,672,129
Accounts receivable	4,245	4,245
Due from primary government	6,162,497	6,162,497
Notes receivable	1,806,579	1,806,579
 Total assets	 \$ 37,220,688	 \$ 37,220,688
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 52,744	\$ 52,744
Retainage payable	797,880	797,880
 Total liabilities	 850,624	 850,624
 Fund balance:		
Restricted for economic development incentives	18,730,837	18,730,837
Committed to promotional activities	2,367,541	2,367,541
Unassigned	15,271,686	15,271,686
Total fund balance	36,370,064	36,370,064
 Total liabilities and fund balance	 \$ 37,220,688	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 12,684,488

Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. (470,337)

Net position of governmental activities \$ 48,584,215

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

MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
Year Ended September 30, 2015

	General	Total Governmental Funds
Revenues:		
Sales taxes	\$ 10,735,647	\$ 10,735,647
Interest income	7,677	7,677
Other	8,966	8,966
Total revenues	10,752,290	10,752,290
Expenditures:		
Administration	767,196	767,196
Marketing and promotion	591,553	591,553
Direct business incentives	2,549,448	2,549,448
Payments to taxing units	279,759	279,759
Capital outlay	6,601,042	6,601,042
Total expenditures	10,788,998	10,788,998
Excess of revenues over expenditures	(36,708)	(36,708)
Net change in fund balance	(36,708)	(36,708)
Beginning fund balance	36,406,772	
Ending fund balance	\$ 36,370,064	

Amounts reported for *governmental activities* 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 expense. This is the amount by which
capital outlays exceeded depreciation in the current period. 6,501,746

The net effect of various miscellaneous transactions involving capital assets
(i.e., sales, trade-ins, and donations) is to decrease net position. (5,400,000)

The issuance of long-term debt (e.g. bonds, 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 these differences in the treatment of long-term
debt and related items. (26,975)

Some expenses reported in the statement of activities do not require the use of
current financial resources and, therefore, are not reported as expenditures in
governmental funds. 5,134

Change in net position of governmental activities \$ 1,043,197

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

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

1. Summary of Significant Accounting Policies

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

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

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

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

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

1. Summary of Significant Accounting Policies (continued)

A. The Financial Reporting Entity

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

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

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

C. Government-wide and Fund Financial Statements

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

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

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

1. Summary of Significant Accounting Policies (continued)

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

1. Summary of Significant Accounting Policies (continued)

D. Measurement Focus and Basis of Accounting (continued)

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

E. Cash, Cash Equivalents, and Investments

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

F. Capital Assets

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

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

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

G. Compensated Absences

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

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

1. Summary of Significant Accounting Policies (continued)

G. Compensated Absences (continued)

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

H. Nature and Purpose of Classifications of Fund Equity

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

2. Reconciliation of Government-wide and Fund Financial Statements

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

The general fund balance sheet includes a reconciliation between fund balance – general fund and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this \$12,684,488 difference are as follows:

Cost of capital assets	\$ 12,985,882
Accumulated depreciation	<u>(301,394)</u>
 Net adjustment to increase <i>fund balance - general fund</i> to arrive at <i>net assets - governmental activities</i>	 \$ <u>12,684,488</u>

Another element of that reconciliation states that “long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$33,237 difference are as follows:

Compensated absences	\$ <u>33,237</u>
 Net adjustment to reduce <i>fund balance-general fund</i> to arrive at <i>net position – governmental activities</i>	 \$ <u>33,237</u>

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

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

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

The general fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between *net change in fund balance – general fund and changes in net position of governmental activities* as reported in the government-wide statement of activities. The reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$6,501,746 difference are as follows:

Capital outlay	\$ 6,601,042
Depreciation expense	<u>(99,296)</u>
<i>Net adjustment to increase net changes in fund balance - general fund to arrive at net changes in net position of governmental activities</i>	<u>\$ 6,501,746</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.” The details of this (\$5,400,000) difference are as follows:

Donations of capital assets to other entities decrease net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	<u>(\$5,400,000)</u>
<i>Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>(\$5,400,000)</u>

Another element of that reconciliation states that, “The issuance of long-term debt (e.g., bonds, 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.” The details of this (\$26,975) difference are as follows:

Issuance of capital lease	(\$ 485,913)
Principal repayment on lease	48,813
Acquisition of building in lease	<u>410,125</u>
<i>Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>(\$ 26,975)</u>

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

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

MDC deposits were fully insured or collateralized as of September 30, 2015. The bank balance of the City was covered by sufficient collateral at September 30, 2015, held in the City's name by the Federal Reserve Bank of Minneapolis as agent for the City.

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

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

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

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

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

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

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

D. Fully collateralized repurchase agreements having a defined termination date

Fully collateralized direct repurchase agreements and reverse repurchase agreements with a defined termination date of no more than 90 days from the date such investment is purchased, 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.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

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

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.

E. Money market funds

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

F. Other securities or obligations approved by the City Council

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

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

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

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

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

State statutes permit the MDC to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse agreements

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

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

normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the MDC or provide securities or cash of equal value, the MDC would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

During the year ended September 30, 2015, the MDC did not invest in derivatives.

Credit Risk – In compliance with the MDC’s investment policy, as of September 30, 2015, MDC minimized credit risk by limiting investments to the safest types of securities and diversifying the portfolio so that potential losses on individual securities were minimized. The 2a7-like pools (which represent 100% of the portfolio) are rated AAAM by Standard and Poor’s.

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

Concentration of Credit Risk – The City’s investment policy states that the portfolio(s) shall be diversified by type of investment and maturities to reduce risks resulting from undue investment concentration. The investments in 2a7-like pools balance as of September 30, 2015 consisted of TexPool, LOGIC, and TexStar in the amounts of \$7,348,450, \$17,260, and \$9,698,617, respectively, which comprise 100% of the MDC’s cash and cash equivalents.

4. Receivables

Receivables as of September 30, 2015 for the MDC were sales tax receivables for \$1,672,129 due from the State of Texas and \$4,245 due from MOTRAN.

The MDC also has \$6.162 million due from the City of Midland, which was part of economic development agreements for construction of streets and infrastructure. Funding was provided to the City of Midland as an interest-free forgivable loan. Additionally, the \$1.8 million notes receivable are economic development agreements provided in the form of forgivable loans to three external entities.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

5. Capital Assets

Capital asset activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,424,753	\$ -	\$ -	\$ 4,424,753
Construction in progress	6,211,048	6,601,043	(6,855,447)	5,956,644
Total capital assets, not being depreciated	<u>10,635,801</u>	<u>6,601,043</u>	<u>(6,855,447)</u>	<u>10,381,397</u>
Capital assets, being depreciated:				
Buildings	-	1,865,571	-	1,865,571
Improvements other than buildings	216,336	-	-	216,336
Machinery and equipment	38,076	-	-	38,076
Infrastructure	484,502	-	-	484,502
Total capital assets, being depreciated	<u>738,914</u>	<u>1,865,571</u>	<u>-</u>	<u>2,604,485</u>
Less accumulated depreciation for:				
Buildings	-	(75,789)	-	(75,789)
Improvements other than buildings	(92,229)	(10,819)	-	(103,048)
Machinery and equipment	(23,724)	(2,997)	-	(26,721)
Infrastructure	(86,145)	(9,691)	-	(95,836)
Total accumulated depreciation	<u>(202,098)</u>	<u>(99,296)</u>	<u>-</u>	<u>(301,394)</u>
Total capital assets, being depreciated, net	<u>536,816</u>	<u>1,766,275</u>	<u>-</u>	<u>2,303,091</u>
Governmental activities capital assets, net	<u>\$ 11,172,617</u>	<u>\$ 8,367,318</u>	<u>\$ (6,855,447)</u>	<u>\$ 12,684,488</u>

6. Employee Benefit Plans

The MDC participates in a multiple-employer defined contribution salary deferral plan created in accordance with Internal Revenue Code Section 401(k). The plan is administered by the American Chamber of Commerce Executives Profit Sharing Plan. Active participants must be at least 21 years of age with a minimum of one year of eligibility service. The MDC contributes 9% of each eligible employee's total annual compensation to the plan. Employees may also make elective deferral contributions up to specified limits of their total compensation each year. The MDC will match those contributions up to a maximum of 3% of each participant's total annual compensation. Vesting is 25% after one year of eligible service, 50% after two years, 75% after three years and 100% after four years of eligible service. The MDC contributed a total of \$36,213 to the plan during fiscal year 2015.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

7. Long-term liabilities

Long-term liability activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	\$ 38,371	\$ 4,459	\$ (9,593)	\$ 33,237	15,000
Capital Lease	-	485,913	(48,813)	437,100	51,310
Governmental activities long-term liabilities	<u>\$ 38,371</u>	<u>\$ 490,372</u>	<u>\$ (58,406)</u>	<u>\$ 470,337</u>	<u>66,310</u>

8. Capital Leases

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.

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

Buildings	\$410,125
Less: Accumulated depreciation	<u>(75,789)</u>
	<u>\$334,336</u>

The following is a summary of the capitalized lease transactions for MDC for the year ended September 30, 2015:

	Balance at September 30, 2014	Capital Lease Commitments	Amortization of Capital Leases	Balance at September 30, 2015
Hangar Lease	\$0	\$485,913	\$48,813	\$437,100

Future minimum lease obligations and the net present value of these payments as of September 30, 2015, were as follows:

Fiscal Year Ending September 30:

	2016	\$ 72,000
	2017	72,000
	2018	72,000
	2019	72,000
	2020	72,000
	2021-2023	<u>162,000</u>
Total minimum lease payments		\$522,000
Less interest at 5.00%		<u>(84,900)</u>
Present value		<u>\$437,100</u>

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2015

9. Risk Management

The MDC is exposed to various risks of loss related to torts. For the purposes of the Texas Tort Claims Act (Subchapter A, Chapter 101, Texas Civil Practices and Remedies Code), the MDC is a governmental unit and its actions are governmental functions and, therefore, are limited by governmental immunity. There were no claims outstanding as of September 30, 2015.

10. Commitments

At September 30, 2015, the MDC had contracts for economic development commitments to eight entities for \$18,730,837.

11. Litigation

MDC was named as a defendant in a petition with Big B Crane LLC filed August 5, 2015, but subsequently a notice of nonsuit of all claims was filed in the District Court of Midland County December 28, 2015. Hence this was the only legal action arising in the ordinary course of its business during the fiscal year ended September 30, 2015.

MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
Year Ended September 30, 2015
(unaudited)

	Original Budget	Amended Budget	Actual	Variance— Favorable (Unfavorable)
Revenues:				
Sales taxes	\$ 10,600,000	\$ 10,600,000	\$ 10,735,647	\$ 135,647
Interest income	15,000	15,000	7,677	(7,323)
Other	-	-	8,966	8,966
	<u>10,615,000</u>	<u>10,615,000</u>	<u>10,752,290</u>	<u>137,290</u>
Total revenues				
Expenditures:				
Administration	842,169	842,169	767,196	74,973
Marketing and promotion	709,500	809,500	591,553	217,947
Direct business incentives	7,000,000	7,000,000	2,549,448	4,450,552
Payments to taxing units	246,759	246,759	279,759	(33,000)
Capital outlay	-	7,143,594	6,601,042	542,552
	<u>8,798,428</u>	<u>16,042,022</u>	<u>10,788,998</u>	<u>5,253,024</u>
Total expenditures				
Excess of revenues over (under) expenditures	1,816,572	(5,427,022)	(36,708)	5,390,314
Total other financing sources				
Beginning fund balance	<u>36,406,772</u>	<u>36,406,772</u>	<u>36,406,772</u>	<u>-</u>
Ending fund balance	<u>\$ 38,223,344</u>	<u>\$ 30,979,750</u>	<u>\$ 36,370,064</u>	<u>\$ 5,390,314</u>

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

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2015
(unaudited)

Budgetary Data

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

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

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

End of Document - Associated documents - next page



KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

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

The Board of Directors
The Midland Development Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Midland Development Corporation (MDC) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the MDC's basic financial statements, and have issued our report thereon dated March 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the MDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MDC's internal control. Accordingly, we do not express an opinion on the effectiveness of the MDC's internal control.

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MDC's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

KPMG LLP

Albuquerque, New Mexico
March 30, 2016