

MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND
For the Year Ended September 30, 2003

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KPMG LLP
Suite 300
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Midland, TX 79701

Independent Auditors' Report

The Board of Directors
The Midland Development Corporation:

We have audited the accompanying financial statements of the governmental activities and major fund of The Midland Development Corporation (the Corporation), a component unit of the City of Midland, Texas, as of and for the year ended September 30, 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the Corporation as of September 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the general fund budgetary comparison schedule are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

January 16, 2004



THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003

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, 2003.

Financial Highlights

The net assets of the MDC were \$3.95 million at September 30, 2003, an increase of \$2.44 million from the September 30, 2002 level of \$1.51 million.

At September 30, 2003, unreserved fund balance for the general fund was \$3.7 million, an increase of \$2.24 million from the September 30, 2002 level of \$1.46 million. Amounts reserved for economic development incentives in the general fund increased from \$50,000 at September 30, 2002 to \$253,480 at September 30, 2003.

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 other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The statement of net assets presents information on all of the MDC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003

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 Funds

Governmental funds are 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 governmental funds 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 would usually provide a reconciliation to facilitate this comparison between governmental funds and governmental activities; however, no reconciliation is provided because there are no reconciling items.

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

**THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003**

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.

Other 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 assets 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, 2003 by \$3.95 million, an increase of \$2.4 million from the September 30, 2002 amount of \$1.51 million.

Table 1
MDC's Net Assets
(In Thousands)

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Current and other assets	\$3,982	\$1,530
Total assets	3,982	1,530
Liabilities	34	20
Total liabilities	34	20
Net assets:		
Unrestricted	3,948	1,510
Total net assets	\$3,948	\$1,510

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003

Government-Wide Financial Analysis (continued)

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

	Governmental Activities	
	2003	2002
Revenues:		
General revenues:		
Sales taxes	\$3,335	\$1,617
Other	28	4
Total revenues	<u>3,363</u>	<u>1,621</u>
Expenses:		
General government	680	61
Economic development	245	50
Total expenses	<u>925</u>	<u>111</u>
Increase in net assets	2,438	1,510
Net assets - October 1	1,510	-
Net assets - September 30	<u>\$3,948</u>	<u>\$1,510</u>

Governmental Activities

Table 3
MDC's General Revenues
(in Thousands)

	Governmental Activities	
	2003	2002
Sales taxes	\$3,335	\$1,617
Investment earnings	28	3
Other	0	1
Total general revenues	<u>\$3,363</u>	<u>\$1,621</u>

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003

Governmental Activities (continued)

The MDC's general revenues for governmental activities provided \$3.4 million in Fiscal Year 2003 as compared to \$1.6 million in the six months of operations in Fiscal Year 2002. These revenues were used to pay for expenses associated with general government and economic development activities of \$0.9 million in Fiscal Year 2003, as compared to \$0.1 million in Fiscal Year 2002. 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, \$0.7 million, and economic development activities, \$0.2 million during the year ended September 30, 2003. Expenses in Fiscal Year 2002 to provide for administration, \$61,000, and economic development, \$50,000, were significantly lower because of the cautious approach taken by the corporation in entering into contracts during the first six months of operations.

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, unreserved 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, unreserved fund balance was \$3.7 million and total fund balance was \$3.95 million. At the close of Fiscal Year 2002 unreserved fund balance was \$1.46 million and total fund balance was \$1.51 million.

The \$253,480 in reserved fund balance is attributable to economic development contracts in place at September 30, 2003 to provide economic development assistance to two entities.

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2003

General Fund Budgetary Highlights

Differences between the original/final budget and actual expenditures resulted in MDC expenditures being \$2.7 million under budget for Fiscal Year 2003. The primary contributor to the current year being under budget is the cautious nature of the MDC in providing direct business incentives, \$2.0 million under budget, and proceeding in a judicious manner in developing a marketing and promotion strategy and campaign, \$0.6 million under budget

There were no budgetary adjustments made during FY 2003. Actual on a budgetary basis expenditures were \$0.9 million compared to the final budget amount of \$3.6 million. MDC did not exceed its budget during the year.

The MDC has an actual on a budgetary basis General Fund balance of \$3.9 million, compared to \$1.5 million at the end of the previous year.

Economic Factors And Next Year's Budgets And Rates

The budgetary process for Fiscal Year 2004 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 2003-2004 fiscal year totals \$3.5 million.

The fiscal year 2004 operating budget is supported by combined revenues of \$3.5 million. The major source of this revenue will be \$3.5 million in sales tax collections.

The sales tax revenues are derived from a more stable energy sector of the City of Midland economy and the growth of new businesses in the City as the City stabilizes its regional economic position.

The expenditures budget for the General Fund is \$3.5 million. This yields a balanced budget for the 2003-2004 fiscal year.

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, Texas, 79702-1152.

**MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND
Statement of Net Assets
September 30, 2003**

ASSETS

Cash and cash equivalents	\$ 3,298,378
Investments	46,787
Sales tax receivable	591,072
Accounts receivable	<u>45,685</u>
 Total assets	 <u>3,981,922</u>

LIABILITIES

Accounts payable	<u>33,706</u>
 Total liabilities	 <u>33,706</u>

NET ASSETS

Unrestricted	<u>3,948,216</u>
 Total net assets	 <u><u>\$ 3,948,216</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
Statement of Activities
For the Year Ended September 30, 2003**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
Primary government:		
Governmental activities:		
General government	\$ 680,305	\$ (680,305)
Economic development	<u>244,750</u>	<u>(244,750)</u>
Total governmental activities	<u>925,055</u>	<u>(925,055)</u>
General revenues:		
		3,334,734
		<u>28,206</u>
		<u>3,362,940</u>
		2,437,885
		<u>1,510,331</u>
		<u>\$ 3,948,216</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
Balance Sheet
General Fund
September 30, 2003**

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,298,378
Investments	46,787
Sales tax receivable	591,072
Accounts receivable	<u>45,685</u>

Total assets	\$ <u><u>3,981,922</u></u>
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LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ <u>33,706</u>
Total liabilities	<u>33,706</u>

Fund balance:

Reserved for economic development incentives	253,480
Unreserved, undesignated	<u>3,694,736</u>
Total fund balance	<u>3,948,216</u>

Total liabilities and fund balance	\$ <u><u>3,981,922</u></u>
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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
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended September 30, 2003**

Revenues:	
Sales taxes	\$ 3,334,734
Interest income	<u>28,206</u>
Total revenues	<u>3,362,940</u>
Expenditures:	
Administration	341,276
Marketing and promotion	289,029
Direct business incentives	244,750
Payments to taxing units	<u>50,000</u>
Total expenditures	<u>925,055</u>
Excess of revenues over expenditures	2,437,885
Beginning fund balance	<u>1,510,331</u>
Ending fund balance	<u><u>\$ 3,948,216</u></u>

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, 2003

1. Summary of Significant Accounting Policies

The Midland Development Corporation (MDC), a component unit of the City of Midland, Texas, is a legally separate non-profit 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 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

1. Summary of Significant Accounting Policies (continued)

A. The Financial Reporting Entity

The MDC is a legally separate non-profit 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 of Midland. The MDC has no employees or pension benefit liabilities. The MDC began operations on February 1, 2002.

B. Management's Discussion and Analysis (MD&A) - MD&A is RSI presented before the basic financial statements, which introduces the basic financial statements and provides an analytical overview of the government's financial activities.

C. 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, 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.

D. Required Supplementary Information - RSI, other than MD&A, includes a budgetary comparison schedule for the General Fund.

E. 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 assets 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 and intergovernmental revenues, are the only reported activities.

(continued)

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

NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

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

The government-wide statement of net assets reports all financial and capital resources of the MDC and is presented in an "assets minus liabilities equal net assets" format with net assets reported in the order of relative liquidity. Also, assets and liabilities are presented in relative order of liquidity with liabilities which 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 which 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 non-specific grants are not included as program revenues but are reported as general revenues which 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. Additionally, any fund deemed particularly important by the MDC may be reported as a major fund.

F. Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Exchange and exchange-like transactions, transactions in which the MDC gives or receives value and receives or gives equal value, that create revenues, expenses, gains, losses, assets or liabilities are recognized when the exchange occurs. Nonexchange transactions, transactions in which the MDC gives or receives value without receiving or giving equal value in exchange, that result in revenues, expenses, gains, losses, assets or liabilities are recognized in accordance with GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement Nos. 34 and 36, *Recipient Reporting for Certain shared Nonexchange Revenues*. The treatment of Nonexchange transactions is grouped in four classes based upon the principal characteristics of the transaction and reported according to those characteristics.

(continued)

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

NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

F. Measurement Focus and Basis of Accounting (continued)

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.

The only major fund used by the MDC is the General Fund. The only operating unit of the MDC, this fund accounts for the major activities of the MDC, collection of sales tax revenues and payment of contractual expense items to the City.

G. 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 TEXPOOL, LOGIC and TexStar, 2a-7 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.

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 assets

There are no differences between the governmental fund balance sheet and the government-wide statement of net assets because the nature of the assets and liabilities which were reported at the government-wide level were such that they also met the criteria for reporting at the fund level.

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.

(continued)

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

NOTES TO BASIC FINANCIAL STATEMENTS

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

There are no differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities because the nature of the revenues and expenses which were accrued at the government-wide level were such that they also met the criteria for accrual at the fund level.

3. Deposits, Investments and Obligations under Reverse Repurchase Agreements

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. Government National Mortgage Association ("Ginnie Mae" or "GNMA") fully modified pass through mortgage-backed obligations;
3. Farmers Home Administration ("FmHA") obligations backed by the full faith and credit of the United States;
4. Small Business Administration ("SBA") obligations backed by the full faith and credit of the United States;
5. Federal Home Loan Bank ("FHLBs") bonds;
6. Federal National Mortgage Association ("Fannie Mae" or "FNMA") notes and debentures;
7. Farm Credit System Obligations;
8. Student Loan Marketing Association ("Sallie Mae") obligations;
9. Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") obligations, ie. 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.

(continued)

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

NOTES TO BASIC FINANCIAL STATEMENTS

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

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 ninety days from the date such investment is purchased, and secured by obligations of the United States or its agencies and instrumentalities with a market value of not less than the amount of the funds disbursed and held by a custodian for the MDC.

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

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

Investments are categorized as either (1) insured or registered, or securities held by the MDC or its agent in the MDC's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the MDC's name or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the MDC's name.

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 has the option to invest 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.

(continued)

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

NOTES TO BASIC FINANCIAL STATEMENTS

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

F. Other securities or obligations approved by the City Council(continued)

LOGIC is governed by a five member Board of Directors comprised of three government officials or employees, and two other persons with expertise in public finance representing the General Manager of LOGIC. Additionally, LOGIC has an eighteen to twenty four member advisory board. The Texas Treasury Safekeeping Trust Company (the 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. TexStar is governed by a five member Board of Directors comprised of three government officials or employees and two other persons with expertise in public finance. Additionally, TexStar has a eight member advisory board. Fair value of the City'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. 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.

The MDC's investments as of September 30, 2003 are:

	<u>Fair Value</u>
Investments Categorized as Category 1:	
Obligations of the U. S. Government and its agencies	\$ <u>46,787</u>
Investments Not Subject to Categorization:	
Texpool Investment Pool	3,273,396
TexStar Investment Pool	9,353
LOGIC Investment Pool	<u>14,248</u>
	<u>3,296,997</u>
 Total Investments	 \$ <u>3,343,784</u>

A reconciliation of cash, cash equivalents and investments as shown on the Statement of Net Assets for MDC is as follows:

Cash on hand	\$ 1,381	
Carrying Amount - Investments	<u>3,343,784</u>	
	<u>\$ 3,345,165</u>	
 Cash and Cash Equivalents	 \$ 3,298,378	
Investments	<u>46,787</u>	
	 \$ <u>3,345,165</u>	

(continued)

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

NOTES TO BASIC FINANCIAL STATEMENTS

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

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

During the year ended September 30, 2003, the MDC invested in no derivatives.

4. Receivables

Receivables as of September 30, 2003, for the MDC were sales tax receivables for \$591,072, interest receivable \$140, and accounts receivable of \$45,545.

5. 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.

6. Commitments

At September 30, 2003, the MDC had four contracts for economic development commitments to entities for \$253,480. Also, the MDC extended a contract beginning October 1, 2003 to the Midland Chamber of Commerce (MCOC) to design, develop and implement an economic development program approved by the MDC. The agreement requires monthly payments to the MCOC for one-twelfth of aggregate personnel, administrative and approved program expenses associated with the economic development plus certain program expenses approved by MDC and the City of Midland.

7. Litigation

The MDC was not party to any legal actions arising in the ordinary course of its business during fiscal year ended September 30, 2003.

**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
For the Year Ended September 30, 2003**

	<u>Actual</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Variance- favorable (unfavorable)</u>
Revenues:				
Sales taxes	\$ 3,334,734	\$ 3,527,750	\$ 3,527,750	\$ (193,016)
Interest income	28,206	75,000	75,000	(46,794)
Total revenues	<u>3,362,940</u>	<u>3,602,750</u>	<u>3,602,750</u>	<u>(239,810)</u>
Expenditures:				
Administration	341,276	416,566	416,566	75,290
Marketing and promotion	289,029	925,000	925,000	635,971
Direct business incentives	244,750	2,211,184	2,211,184	1,966,434
Payments to taxing units	50,000	50,000	50,000	-
Total expenditures	<u>925,055</u>	<u>3,602,750</u>	<u>3,602,750</u>	<u>2,677,695</u>
Excess of revenues over expenditures	2,437,885	-	-	2,437,885
Beginning fund balance	<u>1,510,331</u>	<u>1,510,331</u>	<u>1,510,331</u>	<u>-</u>
Ending fund balance	<u>\$ 3,948,216</u>	<u>\$ 1,510,331</u>	<u>\$ 1,510,331</u>	<u>\$ 2,437,885</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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
as of September 30, 2003

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 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.