



**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, 2012

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

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KPMG LLP
Suite 700
Two Park Square
6565 Americas Parkway NE
PO Box 3990
Albuquerque, NM 87190

Independent Auditor's 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 (MDC), as of and for the year ended September 30, 2012, which collectively comprise MDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MDC'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MDC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 respective financial position of the governmental activities and major fund of MDC, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2013 on our consideration of 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, and Budgetary Comparison Schedule on pages 3 – 9 and 24 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.

KPMG LLP

March 20, 2013

THE MIDLAND DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012

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, 2012.

Financial Highlights

The net assets of the MDC were \$41.40 million at September 30, 2012, an increase of \$7.53 million from the September 30, 2011 level of \$33.87 million.

At September 30, 2012, unassigned fund balance for the general fund was \$16.51 million, a decrease of \$12.67 million from the September 30, 2011 level of \$29.18 million. Amounts restricted for economic development incentives in the general fund increased from \$0.13 million at September 30, 2011 to \$20.04 million at September 30, 2012.

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 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.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012

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, 2012

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 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, 2012 by \$41.40 million, an increase of \$7.53 million from the September 30, 2011 amount of \$33.87 million. Several factors contributed to this increase. Sales tax revenues were \$1.9 million higher than budgeted due to a growing economy. Direct business incentives of \$5.3 million less than originally budgeted also had a major impact on net assets.

Table 1
MDC's Net Assets
(In Thousands)

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 38,909	\$ 31,531
Capital assets	2,573	2,642
Total assets	<u>41,482</u>	<u>34,173</u>
Liabilities	83	302
Total liabilities	<u>83</u>	<u>302</u>
Net assets:		
Invested in capital assets	2,573	2,642
Restricted for economic development incentives	20,036	125
Unrestricted	<u>18,790</u>	<u>31,104</u>
Total net assets	<u>\$ 41,399</u>	<u>\$ 33,871</u>

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
 A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 September 30, 2012

Government-Wide Financial Analysis (continued)

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

	Governmental Activities	
	2012	2011
Revenues:		
General revenues:		
Sales taxes	\$ 8,868	\$ 7,571
Other	185	1,040
Total revenues	<u>9,053</u>	<u>8,611</u>
Expenses:		
General government	1,415	1,745
Economic development	110	125
Total expenses	<u>1,525</u>	<u>1,870</u>
Increase in net assets	7,528	6,741
Net assets – October 1	33,871	27,130
Net assets – September 30	<u>\$ 41,399</u>	<u>\$ 33,871</u>

Governmental Activities

Table 3
 MDC's General Revenues
 (in Thousands)

	Governmental Activities	
	2012	2011
Sales taxes	\$ 8,868	\$ 7,571
Investment earnings	29	31
Other	156	1,009
Total general revenues	<u>\$ 9,053</u>	<u>\$ 8,611</u>

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012

Governmental Activities (continued)

The MDC's general revenues for governmental activities provided \$9.1 million in fiscal year 2012 as compared to \$8.6 million in fiscal year 2011. The increase is due to sales tax revenue that was \$1.30 million more than fiscal year 2011. The revenues were used to pay for expenses associated with general government and economic development activities of \$1.5 million in fiscal year 2012, compared to \$1.9 million in fiscal year 2011. Governmental activities are not self-supporting and are paid for through general revenues.

The most significant expense items of the MDC governmental activities are those associated with providing for the contractual obligations for administration, \$1.4 million, and economic development activities, \$0.1 million, during the year ended September 30, 2012.

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 \$16.5 million and total fund balance was \$38.9 million. At the close of fiscal year 2011, unassigned fund balance was \$29.2 million and total fund balance was \$31.3 million. The increase in fund balance can be attributed to sales tax revenue that was \$1.3 million more than fiscal year 2011. 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 1096% of total General Fund expenditures, up from 1616% in 2011, while total fund balance represents 2580%, compared to 1734% in 2011, of that same amount.

\$2.3 million of the fund balance is committed to promotional activities. An additional \$20.04 million is restricted to economic development contracts in place at September 30, 2012 to provide economic development assistance to multiple entities.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012

General Fund Budgetary Highlights

Differences between the final budget and actual expenditures resulted in MDC expenditures being \$6.1 million under budget for fiscal year 2012. The major source of this variance is direct business incentives provided by the MDC that were \$5.9 million under budget.

Budgetary adjustments during fiscal year 2012 included a transfer of \$0.6 million between items within direct business incentives. Actual-on-a-budgetary-basis expenditures were \$1.5 million compared to the final budget amount of \$7.6 million.

The MDC has an actual-on-a-budgetary-basis General Fund balance of \$38.9 million compared to \$31.3 million at the end of the previous year.

Capital Assets

MDC's investment in capital assets for its governmental type activities as of September 30, 2012 amounts to \$2.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and infrastructure.

There were no major capital asset events during the current fiscal year.

Table 4
MDC's Capital Assets at September 30, 2012
(Net of Depreciation, in Thousands)

	Governmental Activities	
	2012	2011
Land	\$ 728	\$ 728
Buildings	1,064	1,096
Improvements other than buildings	343	368
Machinery and equipment	20	23
Infrastructure	418	427
Construction in progress	-	-
Total capital assets	<u>\$ 2,573</u>	<u>\$ 2,642</u>

(continued)

THE MIDLAND DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012

Debt

The MDC had no outstanding debt at September 30, 2012.

Economic Factors And Next Year's Budgets And Rates

The budgetary process for fiscal year 2013 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 2012–2013 fiscal year totals \$8.1 million.

The fiscal year 2013 operating budget is supported by combined revenues of \$8.1 million. The major source of this revenue will be \$8.1 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 2012 followed the trend established during 2011 and the latter part of fiscal year 2010, increasing substantially year over year. Fiscal year 2013 sales tax receipts are budgeted very conservatively at \$1.2 million more than the fiscal year 2012 budget, but less than the fiscal year 2012 actual receipts.

The expenditures budget for the General Fund is \$8.1 million. This yields a balanced budget for the 2012–2013 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. Lorraine, Midland, TX 79702-1152.

MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
STATEMENT OF NET ASSETS
September 30, 2012

Assets

Cash and cash equivalents	\$ 26,512,145
Sales tax receivable	1,551,488
Capital assets (net of accumulated depreciation)	2,572,892
Due from primary government	7,520,000
Notes receivable	<u>3,325,000</u>
 Total assets	 <u>41,481,525</u>

Liabilities

Accounts payable	57,285
Noncurrent liabilities:	
Due within one year	15,000
Due in more than one year	<u>10,341</u>
 Total liabilities	 <u>82,626</u>

Net Assets

Invested in capital assets	2,572,892
Restricted for economic development incentives	20,036,000
Unrestricted	<u>18,790,007</u>
 Total net assets	 <u>\$ 41,398,899</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, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u> <u>Governmental Activities</u>
Primary government:		
Governmental activities:		
General government	\$ 1,415,268	\$ (1,415,268)
Economic development	110,000	(110,000)
Total governmental activities	<u>1,525,268</u>	<u>(1,525,268)</u>
General revenues:		
Sales taxes		8,868,154
Investment earnings		28,668
Miscellaneous		<u>155,948</u>
Total general revenues		<u>9,052,770</u>
Change in net assets		<u>7,527,502</u>
Net assets – beginning		<u>33,871,397</u>
Net assets – ending		<u>\$ 41,398,899</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, 2012

	<u>General</u>	<u>Total Governmental Funds</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 26,512,145	\$ 26,512,145
Sales tax receivable	1,551,488	1,551,488
Due from primary government	7,520,000	7,520,000
Notes receivable	<u>3,325,000</u>	<u>3,325,000</u>
 Total assets	 <u>\$ 38,908,633</u>	 <u>\$ 38,908,633</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ <u>57,285</u>	\$ <u>57,285</u>
 Total liabilities	 <u>57,285</u>	 <u>57,285</u>
 Fund balance:		
Restricted for economic development incentives	20,036,000	20,036,000
Committed to promotional activities	2,303,479	2,303,479
Unassigned	<u>16,511,869</u>	<u>16,511,869</u>
Total fund balance	<u>38,851,348</u>	<u>38,851,348</u>
 Total liabilities and fund balance	 <u>\$ 38,908,633</u>	
 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.		2,572,892
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(25,341)</u>
 Net assets of governmental activities		 <u>\$ 41,398,899</u>

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

MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
Year Ended September 30, 2012

	<u>General</u>	<u>Total Governmental Funds</u>
Revenues:		
Sales taxes	\$ 8,868,154	\$ 8,868,154
Interest income	28,668	28,668
Other	155,948	155,948
Total revenues	<u>9,052,770</u>	<u>9,052,770</u>
Expenditures:		
Administration	711,887	711,887
Marketing and promotion	444,430	444,430
Direct business incentives	110,000	110,000
Payments to taxing units	239,760	239,760
Total expenditures	<u>1,506,077</u>	<u>1,506,077</u>
Excess of revenues over expenditures	<u>7,546,693</u>	<u>7,546,693</u>
Beginning fund balance	<u>31,304,655</u>	
Ending fund balance	<u>\$ 38,851,348</u>	
Amounts reported for <i>governmental activities</i> in the the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense in the current period.		(69,485)
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.		<u>50,294</u>
Change in net assets of governmental activities		<u>\$ 7,527,502</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, 2012

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, 2012

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, 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.

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 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, are the only reported activities.

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. Assets and liabilities are presented in relative order of liquidity with liabilities that have an average maturity of more than one year separated into the amount due within one year and the amount due in more than one year.

The government-wide statement of activities identifies the relative financial burden of each of the MDC's functions on the taxpayers by identifying direct expenses and the extent of self-support through program revenues. Direct expenses are clearly identifiable expenses that can be specifically associated with a function. Program

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2012

1. Summary of Significant Accounting Policies (continued)

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

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. 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. 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.

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.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2012

1. Summary of Significant Accounting Policies (continued)

D. Measurement Focus and Basis of Accounting (continued)

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

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

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

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2012

1. Summary of Significant Accounting Policies (continued)

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 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 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 assets.

The general fund balance sheet includes a reconciliation between fund balance – general fund and net assets – governmental activities as reported in the government-wide statement of net assets. 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 \$2,572,892 difference are as follows:

Cost of capital assets	\$ 3,020,991
Accumulated depreciation	<u>(448,099)</u>
Net adjustment to increase <i>fund balance – general fund</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 2,572,892</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 \$25,341 difference are as follows:

Compensated absences	\$ <u>25,341</u>
Net adjustment to reduce <i>fund balance – general fund</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 25,341</u>

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2012

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 assets 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 \$(69,485) difference are as follows:

Depreciation expense	\$	(69,485)
Net adjustment to decrease <i>net changes in fund balance – general fund</i> to arrive at <i>net changes in net assets of governmental activities</i>	\$	(69,485)

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

MDC deposits were fully insured or collateralized as of September 30, 2012. At year-end, the carrying amount of MDC's cash was \$1,997,101. The bank balance of the City was covered by collateral with a fair value of \$7,565,756 at September 30, 2012, 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.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2012

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

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

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

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

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

D. Fully collateralized repurchase agreements having a defined termination date

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

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

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

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2012

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

under the Interlocal Cooperation Act, Texas Government Code Ann. Ch. 791 and the Texas Government Code Ann. Ch. 2256.

LOGIC is governed by a five-member Board of Directors consisting of individuals from participating Government Entities in the pool and one unaffiliated individual. 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. 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 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, 2012, the MDC did not invest in derivatives.

Credit Risk – In compliance with the MDC's investment policy, as of September 30, 2012, 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.

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2012

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

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, 2012 consisted of TexPool, LOGIC, and TexStar in the amounts of \$12,839,068, \$17,200, and \$11,658,776, respectively, which comprise 100% of the MDC's investment balance.

4. Receivables

Receivables as of September 30, 2012 for the MDC were sales tax receivables for \$1,551,488 due from the State of Texas.

The MDC also has \$7.5 million due from the City of Midland, which was part of an economic development agreement for construction of a water line and paving. Funding was provided to the City of Midland as an interest-free forgivable loan. Additionally, the \$3.3 million notes receivable are economic development agreements provided in the form of forgivable loans to three external entities.

5. Capital Assets

Capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 727,969	\$ -	\$ -	\$ 727,969
Total capital assets, not being depreciated	<u>727,969</u>	<u>-</u>	<u>-</u>	<u>727,969</u>
Capital assets, being depreciated:				
Buildings	1,271,184	-	-	1,271,184
Improvements other than buildings	499,260	-	-	499,260
Machinery and equipment	38,076	-	-	38,076
Infrastructure	484,502	-	-	484,502
Total capital assets, being depreciated	<u>2,293,022</u>	<u>-</u>	<u>-</u>	<u>2,293,022</u>
Less accumulated depreciation for:				
Buildings	(175,606)	(31,804)	-	(207,410)
Improvements other than buildings	(131,202)	(24,985)	-	(156,187)
Machinery and equipment	(14,733)	(2,999)	-	(17,732)
Infrastructure	(57,073)	(9,697)	-	(66,770)
Total accumulated depreciation	<u>(378,614)</u>	<u>(69,485)</u>	<u>-</u>	<u>(448,099)</u>
Total capital assets, being depreciated, net	<u>1,914,408</u>	<u>(69,485)</u>	<u>-</u>	<u>1,844,923</u>
Governmental activities capital assets, net	<u>\$ 2,642,377</u>	<u>\$ (69,485)</u>	<u>\$ -</u>	<u>\$ 2,572,892</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

(continued)

THE MIDLAND DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF THE CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2012

6. Employee Benefit Plans (continued)

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 \$40,696 to the plan during fiscal year 2012.

7. Long-term liabilities

Long-term liability activity for the year ended September 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 75,635	\$ 21,675	\$ (71,969)	\$ 25,341	15,000
Governmental activities long-term liabilities	<u>\$ 75,635</u>	<u>\$ 21,675</u>	<u>\$ (71,969)</u>	<u>\$ 25,341</u>	<u>15,000</u>

8. Risk Management

The MDC is exposed to various risks of loss related to torts. For the purposes of the Texas Tort Claims Act (Subchapter A, Chapter 101, Texas Civil Practices and Remedies Code), the MDC is a governmental unit and its actions are governmental functions and, therefore, are limited by governmental immunity. There were no claims outstanding as of September 30, 2012.

9. Commitments

At September 30, 2012, the MDC had contracts for economic development commitments to seven entities for \$20,036,000.

10. Litigation

The MDC was not party to any legal actions arising in the ordinary course of its business during fiscal year ended September 30, 2012.

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, 2012

	Original Budget	Amended Budget	Actual	Variance-- Favorable (Unfavorable)
Revenues:				
Sales taxes	\$ 6,925,000	\$ 6,925,000	\$ 8,868,154	\$ 1,943,154
Interest income	50,000	50,000	28,668	(21,332)
Other	-	-	155,948	155,948
	<u>6,975,000</u>	<u>6,975,000</u>	<u>9,052,770</u>	<u>2,077,770</u>
Total revenues				
Expenditures:				
Administration	826,740	826,740	711,887	114,853
Marketing and promotion	500,500	500,500	444,430	56,070
Direct business incentives	5,386,500	5,976,744	110,000	5,866,744
Payments to taxing units	239,760	239,760	239,760	-
Capital outlay	21,500	21,500	-	21,500
	<u>6,975,000</u>	<u>7,565,244</u>	<u>1,506,077</u>	<u>6,059,167</u>
Total expenditures				
Excess of revenues over (under) expenditures	-	(590,244)	7,546,693	8,136,937
Beginning fund balance	<u>31,304,655</u>	<u>31,304,655</u>	<u>31,304,655</u>	<u>-</u>
Ending fund balance	<u>\$ 31,304,655</u>	<u>\$ 30,714,411</u>	<u>\$ 38,851,348</u>	<u>\$ 8,136,937</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, 2012

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.