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|----|-------------|----------------|--|--|
| 32 | Item three: | NOT APPLICABLE |  |  |
| 33 | Item four:  | NOT APPLICABLE |  |  |
| 34 | Item five:  | NOT APPLICABLE |  |  |







**Attachment D**

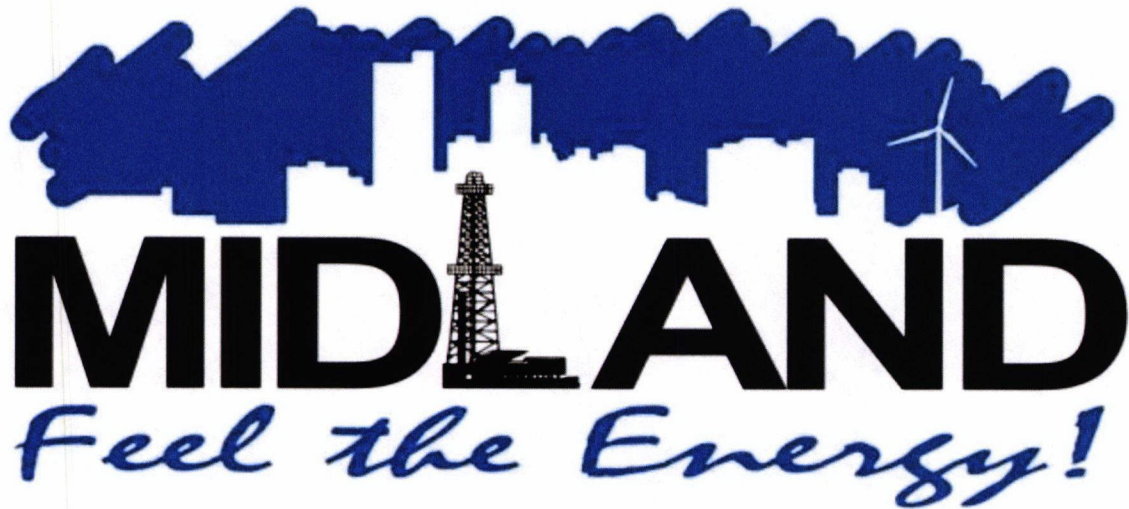
2018 Comprehensive Annual Financial Report

City of Midland

2013-2014 Capital Improvement Program

City of Midland





**COMPREHENSIVE  
ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED**

**SEPTEMBER 30, 2018**

**MIDLAND, TEXAS**





**CITY OF MIDLAND, TEXAS**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

For the Year Ended  
September 30, 2018

Prepared by the Finance Department

Pam Simecka  
Director of Finance

Seth Boles  
Comptroller

Shelby Zuniga  
Accounting Manager



**CITY OF MIDLAND, TEXAS**  
**TABLE OF CONTENTS**

---

|  | <u>Page(s)</u> |
|--|----------------|
| <b>INTRODUCTORY SECTION</b><br><b>(Unaudited)</b>  |                |
| Principal Officials .....  | i              |
| Organization Chart.....  | ii             |
| Certificate of Achievement for Excellence in Financial Reporting.....  | iii            |
| Letter of Transmittal .....  | iv-ix          |
| <b>FINANCIAL SECTION</b>   |                |
| INDEPENDENT AUDITOR'S REPORT .....   | 1-3            |
| <b>GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS</b>   |                |
| Management's Discussion and Analysis (Unaudited) .....   | MD&A 1-14      |
| <b>Basic Financial Statements</b>  |                |
| <b>Government-Wide Financial Statements</b>  |                |
| Statement of Net Position .....  | 4-5            |
| Statement of Activities .....  | 6-7            |
| <b>Fund Financial Statements</b>   |                |
| <b>Governmental Funds</b>  |                |
| Balance Sheet - Governmental Funds.....  | 8-9            |
| Reconciliation of Fund Balances of Governmental Funds to the<br>Governmental Activities in the Statement of Net Position.....  | 10             |
| Statement of Revenues, Expenditures, and Changes in Fund Balances .....  | 11             |
| Reconciliation of the Governmental Funds Statement of Revenues,<br>Expenditures, and Changes in Fund Balances to the Governmental<br>Activities in the Statement of Activities ..... | 12             |



**CITY OF MIDLAND, TEXAS**  
**TABLE OF CONTENTS (Continued)**

---

Page(s)

**FINANCIAL SECTION (Continued)**

**GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS (Continued)**

Basic Financial Statements (Continued)

Fund Financial Statements (Continued)

Proprietary Funds

|   |       |
|---|-------|
| Statement of Net Position .....                                   | 13-15 |
| Statement of Revenues, Expenses, and Changes in Net Position..... | 16-18 |
| Statement of Cash Flows .....                                     | 19-21 |
| Notes to Financial Statements .....                               | 22-90 |

Required Supplementary Information (Unaudited)

|   |       |
|---|-------|
| Schedule of Revenues, Expenditures, and Changes in Fund                       |       |
| Balance - Budget and Actual - General Fund .....                              | 91    |
| Notes to Required Supplementary Information .....                             | 92-93 |
| Schedule of Changes in the City's Total OPEB Liability<br>and Related Ratios  |       |
| Texas Municipal Retirement System - Supplemental Death Benefits Fund.....     | 94    |
| Other Postemployment Plan .....   | 95    |
| Schedule of Employer Contributions  |       |
| Texas Municipal Retirement System.....  | 96    |
| Midland's Firemen's Relief and Retirement Fund .....                          | 97    |
| Schedule of Changes in the City's Net Pension Liability<br>and Related Ratios |       |
| Texas Municipal Retirement System.....  | 98    |
| Midland's Firemen's Relief and Retirement Fund .....                          | 99    |

**COMBINING AND INDIVIDUAL FUND FINANCIAL  
STATEMENTS AND SCHEDULES (Unaudited)**

**MAJOR GOVERNMENTAL FUNDS**

|   |     |
|---|-----|
| Schedule of Revenues, Expenditures, and Changes in Fund |     |
| Balance - Budget and Actual - Debt Service Fund .....   | 100 |



**CITY OF MIDLAND, TEXAS**  
**TABLE OF CONTENTS (Continued)**

---

Page(s)

**FINANCIAL SECTION (Continued)**

**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES (Unaudited) (Continued)**

**NONMAJOR GOVERNMENTAL FUNDS**

|  |         |
|--|---------|
| Combining Balance Sheet .....  | 101     |
| Combining Statement of Revenues, Expenditures, and<br>Changes in Fund Balances ..... | 102     |
| Nonmajor Special Revenue Funds   |         |
| Combining Balance Sheet .....  | 103-104 |
| Combining Statement of Revenues, Expenditures, and<br>Changes in Fund Balances.....  | 105-106 |
| Nonmajor Capital Projects Funds  |         |
| Combining Balance Sheet .....  | 107-108 |
| Combining Statement of Revenues, Expenditures, and<br>Changes in Fund Balances.....  | 109-110 |

**PROPRIETARY FUND**

**INTERNAL SERVICE FUNDS**

|   |         |
|---|---------|
| Combining Statement of Net Position.....  | 111-112 |
| Combining Statement of Revenues, Expenses, and<br>Changes in Net Position ..... | 113-114 |
| Combining Statement of Cash Flows.....  | 115-116 |

**STATISTICAL SECTION  
(Unaudited)**

**Financial Trends**

|  |         |
|--|---------|
| Table 1 Net Position by Component.....                       | 117     |
| Table 2 Change in Net Position .....                         | 118-119 |
| Table 3 Fund Balances of Governmental Funds.....             | 120     |
| Table 4 Changes in Fund Balances of Governmental Funds ..... | 121     |

**Revenue Capacity**

|   |     |
|---|-----|
| Table 5 Tax Revenues by Source, Governmental Funds.....           | 122 |
| Table 6 Assessed Value and Actual Value of Taxable Property ..... | 123 |
| Table 7 Direct and Overlapping Property Tax Rates.....            | 124 |
| Table 8 Principal Property Taxpayers.....                         | 125 |
| Table 9 Property Tax Levies and Collections.....                  | 126 |





**CITY OF MIDLAND, TEXAS**  
**TABLE OF CONTENTS (Continued)**

---

Page(s)

**STATISTICAL SECTION (Continued)**  
**(Unaudited)**

Revenue Capacity (Continued)

|          |  |     |
|----------|--|-----|
| Table 10 | Taxable Sales by Category.....               | 127 |
| Table 11 | Direct and Overlapping Sales Tax Rates ..... | 128 |
| Table 12 | Sales Tax Revenue Payers by Industry .....   | 129 |

Debt Capacity

|          |  |     |
|----------|--|-----|
| Table 13 | Ratios of Outstanding Debt by Type .....                 | 130 |
| Table 14 | Ratios of Net General Bonded Debt Outstanding.....       | 131 |
| Table 15 | Direct and Overlapping Governmental Activities Debt..... | 132 |
| Table 16 | Debt Margin Information .....                            | 133 |
| Table 17 | Pledged-Revenue Coverage .....                           | 134 |

Demographic and Economic Information

|          |   |     |
|----------|---|-----|
| Table 18 | Demographic and Economic Statistics ..... | 135 |
| Table 19 | Principal Employers.....                  | 136 |

Operating Information

|          |   |     |
|----------|---|-----|
| Table 20 | Full-Time Equivalent City Government Employees<br>by Function/Program ..... | 137 |
| Table 21 | Operating Indicators by Function/Program .....                              | 138 |
| Table 22 | Capital Asset Statistics by Function/Program.....                           | 139 |

**SUPPLEMENTAL SECTION**  
**(Unaudited)**

Tax Supported Debt

|           |  |     |
|-----------|--|-----|
| Table 1   | Valuation, Exemptions, and General Obligation Debt ..... | 140 |
| Table 2   | Taxable Assessed Valuations by Category .....            | 141 |
| Table 3A  | Valuation and General Obligation Debt History .....      | 142 |
| Table 3B  | Derivation of General Purpose Funded Tax Debt.....       | 142 |
| Table 4   | Tax Rate, Levy, and Collection History .....             | 142 |
| Table 5   | Ten Largest Taxpayers.....                               | 143 |
| Table 6   | Tax Adequacy .....                                       | 143 |
| Table 7   | Estimated Overlapping Debt.....                          | 143 |
| Table 8A  | General Obligation Debt Service Requirements.....        | 144 |
| Table 8B  | Division of Debt Service Requirements .....              | 144 |
| Table 9   | Interest and Sinking Fund Budget Projection .....        | 145 |
| Table 10  | Computation of Self-Supporting Debt .....                | 145 |
| Table 11  | Authorized but Unissued General Obligation Bonds.....    | 146 |
| Table 12  | Other Obligations.....                                   | 146 |
| Table 13  | General Fund Revenues and Expenditure History.....       | 147 |
| Table 14  | Municipal Sales Tax History .....                        | 148 |
| Table 15  | Current Investments .....                                | 148 |
| Table 16A | Airport Statement of Operations.....                     | 149 |
| Table 16B | Water & Sewer Statement of Operations.....               | 150 |
| Table 17  | Outstanding System Revenue Bonds.....                    | 151 |
| Table 18  | Historical Water Pumpage and Consumption.....            | 152 |



**CITY OF MIDLAND, TEXAS**  
**TABLE OF CONTENTS (Continued)**

---

Page(s)

**SUPPLEMENTAL SECTION (Continued)**  
**(Unaudited)**

**Airport Revenue Debt**

|         |  |     |
|---------|--|-----|
| Table 1 | Passenger Enplanements on Scheduled Airline Flights.....   | 153 |
| Table 2 | Airline/Airport Use Agreement .....  | 154 |
| Table 3 | Airport Revenue Debt Service Requirements.....   | 155 |
| Table 4 | Authorized But Unissued Airport Revenue Bonds;<br>Anticipated Issuance of Airport Revenue Bonds..... | 155 |
| Table 5 | Other Airport Obligations .....  | 155 |
| Table 6 | Airport Statement of Operations .....  | 156 |
| Table 7 | Coverage .....   | 157 |
| Table 8 | Current Investments .....  | 157 |



**INTRODUCTORY SECTION (Unaudited)**



CITY OF MIDLAND  
PRINCIPAL OFFICIALS

CITY COUNCIL

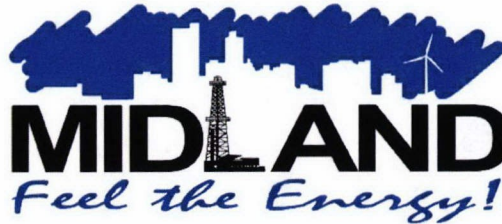
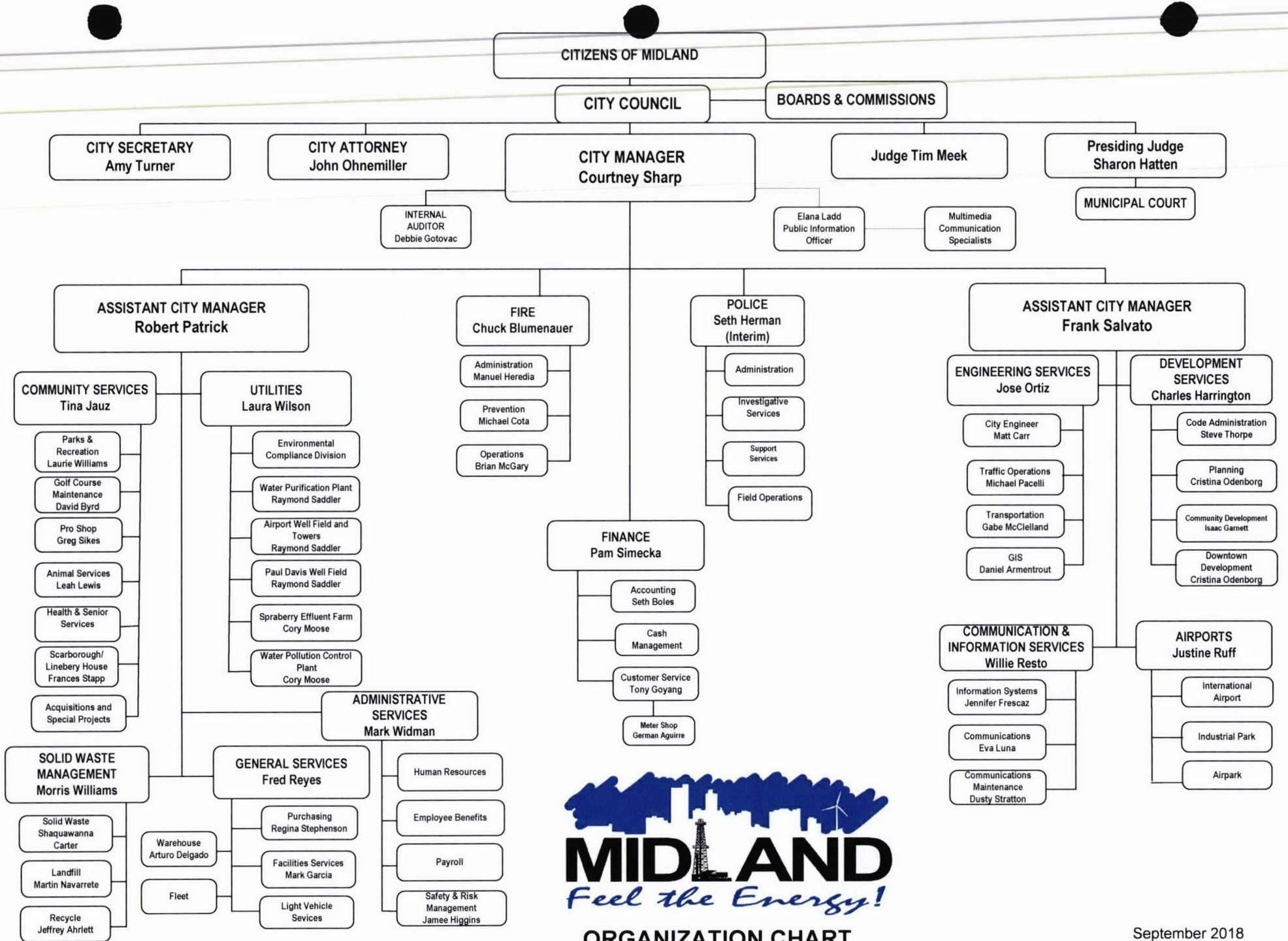
The Honorable Jerry F. Morales..... Mayor  
J. Ross Lacy..... District 4 ..... Mayor Pro Tem  
Spencer Robnett..... At Large ..... Council Member  
W. Jeffrey Sparks..... District 1 ..... Council Member  
John B. Love III..... District 2 ..... Council Member  
Sharla Hotchkiss..... District 3 ..... Council Member  
A. Scott Dufford..... At Large ..... Council Member

OTHER PRINCIPAL OFFICERS

Courtney B. Sharp..... City Manager  
Frank Salvato..... Assistant City Manager  
Robert Patrick..... Assistant City Manager  
John Ohnemiller..... City Attorney  
Amy M. Turner..... City Secretary  
Seth Herman..... Interim Chief of Police  
Charles Blumenauer..... Fire Chief  
Pam Simecka..... Director of Finance  
Mark Widmann..... Director of Administrative Services  
Tina Jauz..... Director of Community Services  
Justine Ruff..... Director of Airports  
Laura Wilson..... Director of Utilities  
Morris Williams..... Director of Solid Waste Management  
Chuck Harrington..... Director of Development Services  
Fred Reyes..... Director of General Services  
Jose Ortiz..... Director of Engineering Services  
Willie Resto..... Director of Communications & Information Services  
Sharon Hatten..... Presiding Judge







**ORGANIZATION CHART**

September 2018





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Midland  
Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2017**

*Christopher P. Morrill*

Executive Director/CEO







300 N. Loraine  
P.O. Box 1152  
Midland, TX 79702-1152

Fax 432.685.7203  
432.686.1600

May 31, 2019

Honorable Mayor  
and Members of the City Council  
City of Midland, Texas

Dear Mayor and Council:

The Comprehensive Annual Financial Report (CAFR) for the City of Midland (the City) for the year ended September 30, 2018 is submitted herewith in compliance with Article IV, Section 29, of the City Charter. This report is published to give our citizens convenient access to a report of the financial condition of our City, its resources during the past fiscal year and uses made of such resources, the results of operations of the various proprietary funds, and comparative and statistical information. The information contained herein will also serve our City Council, management, and staff as a guide in formulating policies and conducting the City's day-to-day affairs. The City's Finance Department is responsible for the accuracy of the data presented and the completeness and fairness of the presentation.

We believe the data presented is accurate in all material aspects and that all disclosures necessary to enable the reader to acquire an understanding of the City's financial activity have been provided.

Independent audits are an essential element of financial control and accountability. The City Charter requires an annual audit to be made of the financial records of the City by a competent public accountant selected by the City Council. Federal guidelines established for local governments receiving federal assistance require that programs receiving federal assistance be audited in conjunction with the local government's annual audit under the "single audit" concept. The City has complied with these requirements. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview, and analysis of the basic financial statements, including comparative data from the past year. It can be found immediately following the independent auditor's report. MD&A complements this letter of transmittal and should be read in conjunction with it.

#### PROFILE OF THE GOVERNMENT

The City was incorporated on January 25, 1911, under the provisions of H.B. 901 of the Texas Legislature. It was subsequently chartered on November 5, 1940 (amended May 4, 1996) and operates under a Council-Manager form of government. The City Council comprises a Mayor and seven members and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the members of various statutory and advisory boards, the City Manager, City Attorney, City Secretary, and Municipal Judge. The City Manager is the chief administrative officer of the government and is responsible for the enforcement of laws and



ordinances, the appointment and supervision of department managers, and the performance of functions within the municipal organization.

The financial reporting entity contains all funds of the primary government (i.e., the City of Midland as legally defined), as well as its component units. Component units are legally separate entities for which the primary government is financially accountable.

The City provides a wide range of services to the citizens, including police and fire protection, health and social services, public improvements, streets, traffic control, planning and zoning, water and sewer, solid waste, airports, parks and recreation facilities and general administrative services.

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. The Midland Development Corporation (MDC) and the Midland Spaceport Development Corporation (Spaceport) are reported as discretely presented component units.

### LOCAL ECONOMY

Midland is located midway between Fort Worth and El Paso, along Interstate 20, in West Texas. The city has remained a management center, reflecting a unique concentration of highly trained and educated personnel. According to the U.S. Census Bureau 2013-2017 American Community Survey 5-year estimates, bachelor's degrees are held by 20.5% of the population 25 years and older, and graduate or professional degrees are held by 7.8%. Attributes, such as the educational levels of the populace, in conjunction with good weather, the high quality of life, and the central location, which facilitates travel and shipping to both coasts, have made Midland a viable candidate in the recruitment of new and relocating businesses.

In 2016, published in 2017 by the U.S. Department of Commerce Bureau of Economic Analysis, the Midland Metropolitan Area attained the nation's second highest per capita personal income (PCPI) in the United States. Midland serves as a regional administrative center for petroleum production.

According to the Texas Workforce Commission, the Midland Metropolitan Statistical Area reported an unemployment rate of 2.2% for September 2018. Midland utilizes economic development resources, primarily economic development tax funds, to expand the economic base by attracting new companies and assisting existing local businesses with the funding of expansion projects.

The city's residential, commercial and industrial growth has been influenced by the development of two city airports: Midland International Air & Space Port and Midland Airpark. Midland International Air & Space Port is the hub of aviation activity for a 43 county area of West Texas and southeast New Mexico. The full service Foreign Trade Zone (FTZ) at the Midland International Air & Space Port assists in the development of a diversified economy. Midland International is also a designated Port of Entry and has a U.S. Customs Office.

The U.S. Census Bureau estimated the population of the Midland Metropolitan Statistical Area to be 170,675 as of July 1, 2017. A steady growth in the number of utility connections and annexations has created more demand on the water system. Development of the T-Bar well field and the clear water well fields has helped meet the demands for water for the City. Midland's growth helps create opportunities in commercial, industrial and residential areas. The past several years have seen the opening of a number of new national chain retail and service businesses.





## LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES

Service to the citizenry is a priority of the City and a large part of that service is maintaining and improving infrastructure and the quality of life. In 2018, in its efforts to continue to provide great service, the following activities occurred:

- The City continues construction of pedestrian and drainage enhancements at the intersection of Carver Street and Scharbauer Drive, estimated to cost \$2.3 million.
- The City continues upgrading, replacing and expanding the existing wireless radio system to better serve City-wide traffic operations, estimated to cost \$1.6 million.
- The City, along with support from TXDOT continues the rehabilitation and widening of Business State Highway 349 C, estimated to cost \$1.7 million for the City's portion.
- The City started construction of various road paving and utility enhancements to various City streets with proceeds from the Series 2018A Road Bond.
- The City continues construction of a new Midland Convention Center, estimated to cost \$42.9 million. The building is anticipated to be completed in 2019 and is to be funded through the hotel occupancy tax.
- The Midland International Air and Space Port continues making improvements to the security checkpoint expansion, estimated to cost \$3.1 million.
- The Midland International Air and Space Port continues to rehabilitate several runways and taxiways at a cost of \$4.5 million.

## ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The accrual basis of accounting is used to report all City financial activity in the government-wide financial statements. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and expenses are recorded in the accounting period incurred.

The City uses the modified accrual basis of accounting for all Governmental Funds (General, Special Revenue, Debt Service, and Capital Projects) and the financial statements for these funds have been prepared on this basis. Under the modified accrual basis, expenditures are recorded when liabilities are incurred and revenues are recorded when they become both measurable and available.

The accrual basis of accounting is followed for the Enterprise and Internal Service Funds and the financial statements for these funds are presented on this basis. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and expenses are recorded in the accounting period incurred.

The City Manager, through his appointee, the Director of Finance, is responsible for maintaining an adequate and effective system of accounts and for establishing and maintaining an internal accounting control system that gives reasonable assurance that assets are being safeguarded against loss from unauthorized use or disposition, and that the financial records can be relied upon for preparing financial statements and maintaining accountability for assets.

We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the upcoming fiscal year. The





operating budget, which represents the financial plan for the ensuing fiscal year, includes proposed expenditures and the means of financing them. Public hearings are conducted at which comments from all interested persons concerning the budget are heard. The budget is legally enacted by the City Council through passage of an ordinance.

Appropriations are legally adopted at the department level for the General Fund and Debt Service Fund on a basis consistent with generally accepted accounting principles. Budgetary controls are maintained at the major category of expenditure level. All anticipated expenditures are budgeted for control purposes. Encumbrances are used for managerial control through the year.

### FINANCIAL PRACTICES

The City adheres to the following financial and managerial practices:

1. Prudent budgeting and effective budget control. Budgeting replacement of capital equipment as the need arises (office machines, automobiles, heavy equipment, etc.).
2. Prudent use of federal funds when available.
3. Pay-as-you-go financing of capital improvements where feasible.
4. Scheduling bond issues so that retirements over the life of the issues produce a total debt service schedule with a declining balance.
5. Plan capital improvements on a five-year plan, updated annually.
6. Passing a share of the cost of extending utilities and improvements in subdivisions to property owners of the subdivisions rather than to the general public.
7. Providing working capital in all funds sufficient to meet current operating needs.
8. Protection of investment principal, including required pledging of collateral to protect deposits within our depository bank.
9. Accounting and reporting in accordance with methods prescribed by the Governmental Accounting Standards Board (GASB), and making such reports available to bond rating agencies and other financially interested organizations.

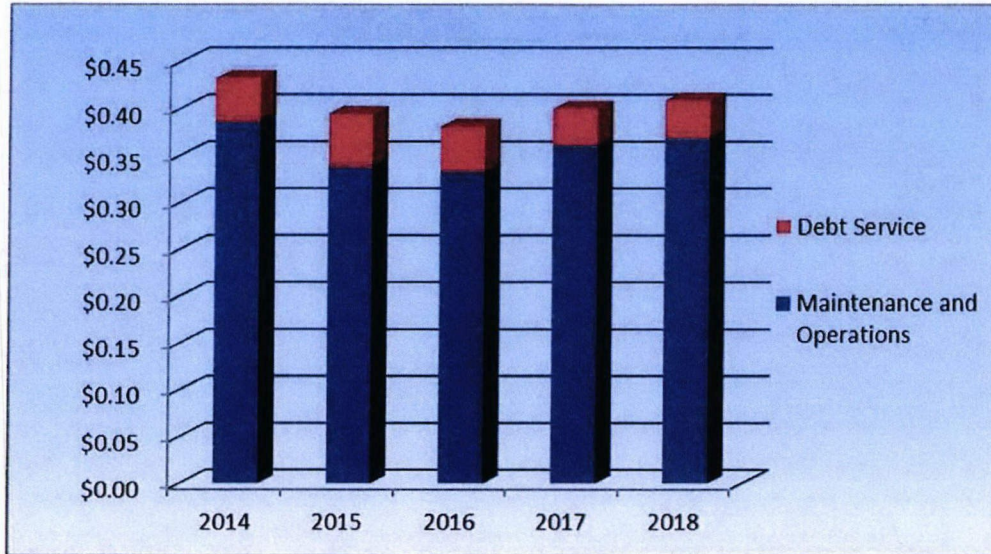
### GENERAL GOVERNMENTAL FUNCTIONS

All eligible property within the City is subject to assessment, levy, and collection by the City of a continuing, direct ad valorem tax sufficient to provide for the payment of principal and interest on outstanding bonds within the limits prescribed by law, and the payment of operation and maintenance costs as approved by the City Council. According to Article V, Section 2, of the City Charter, the maximum tax levy is \$2.00 per \$100.00 of assessed valuation, which includes debt service. Based upon an assessed valuation of 100% of market valuation, the tax rate for fiscal year 2018 was established at 40.8389 cents per \$100.00 of assessed valuation.





The following graph shows a comparison of tax rates, including the maintenance and operations and debt service components, over the last five years.



The City general purpose sales tax rate is 1%. Sales taxes are collected by the State of Texas (the State) and remitted to the City monthly. The City general purpose sales tax revenues amounted to \$53,462,267 in 2018, which was an increase of 25.02% from the prior fiscal year. Sales tax receipts increased due to an upturn in the local economy resulting from increased activity in the oil and gas industry.

Gross receipt taxes include franchise taxes levied on the electric, gas, telephone, water, sanitation, and cable television utilities.

A hotel occupancy tax provides funding for the enhancement and promotion of tourism. The hotel occupancy tax was up 128.2% in 2018 compared to 2017. Similar to sales taxes, the increase in the hotel occupancy tax was due to increased oil and gas activity.

#### DEBT ADMINISTRATION

The City's strong, positive, and responsive management is reflected by the fact the City has maintained its strong ratings through the challenges of changing economies. In 2018, the City issued General Obligation Improvement and Refunding Bonds, Series 2018 A and General Obligation Refunding Bonds, Taxable Series 2018 B, in the amount of \$51,555,000 and \$8,865,000, respectively for improvements to the City's infrastructure and refunding past debt to save on interest costs. As of September 30, 2018, Fitch Ratings and Standard & Poor's credit ratings on the City's general obligation debt were the highest ratings possible, AAA and AA+, respectively.

The City of Midland has never defaulted on any required debt payment or other debt obligation. Additional information regarding bonded debt is presented in the supplementary information in the statistical tables.



## FISCAL RESPONSIBILITIES

The City adheres to a policy of a balanced budget and careful and conservative management of the City's resources, primarily on a pay-as-you-go basis. Because of this, the City has maintained and will maintain a strong financial condition for the benefit of its citizens.

## AWARDS AND ACKNOWLEDGMENTS

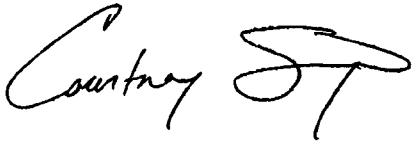
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Midland, Texas, for its comprehensive annual financial report for the fiscal year ended September 30, 2017. This was the thirty-fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report, and the maintenance of the records upon which it is based, required the services and cooperation of the staff of the Accounting Division, together with assistance from other departments and divisions of the City, and the assistance of the City's independent auditors. All of these efforts are greatly appreciated.

We also wish to thank the Mayor and members of the City Council for their responsible manner of conducting the financial operations of the City.

Respectfully submitted,



Courtney Sharp  
City Manager



Pam Simecka  
Director of Finance





**FINANCIAL SECTION**



## Independent Auditor's Report

The Honorable Mayor, City Council and City Manager  
City of Midland, Texas  
Midland, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Midland, Texas (City) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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



### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in *Note 1* to the financial statements, in 2018, the City adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and pension and other postemployment 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules, introductory, statistical, and supplemental sections as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.



The Honorable Mayor, City Council and City Manager  
City of Midland, Texas  
Page 3

The introductory, statistical and supplemental sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*BKD, LLP*

Dallas, Texas  
May 31, 2019





**GENERAL PURPOSE EXTERNAL  
FINANCIAL STATEMENTS**



CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

As management of the City of Midland, Texas (City of Midland or City), we offer readers of the City's basic financial statements this narrative overview and analysis of the financial activities of the City of Midland for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iv – ix of this report. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the City of Midland exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$538.0 million (net position). Unrestricted net position of \$114.4 million, an increase of \$24.4 million from the prior year, may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of fiscal year 2018, the City of Midland governmental activities reported combined net position of \$193.3 million, a decrease of \$12.1 million from the prior year. Unrestricted net position was \$4.0 million deficit, a decrease of \$28.8 million from the prior year.
- As of September 30, 2018, unassigned fund balance of the General Fund was \$61.9 million, or 51.7% of total General Fund expenditures. At the close of the prior fiscal year, unassigned fund balance for the General Fund was \$90.9 million or 76.8% of that year's expenditures. In fiscal year 2018, the General Fund transferred \$31.3 million to the Scharbauer Sports Complex which contributed to the decrease in unassigned fund balance.
- The government's business-type activities total net position increased from \$297.0 million in fiscal year 2017 to \$344.8 million in the current year, a change of 16.1%. This increase was due primarily to airport operations and to \$27.0 million in total transfers in from governmental activities. This includes the \$31.3 million transfer to the Sports Complex.
- The City's total bonds payable and capital lease operations increased by \$18.9 million during the current fiscal year. The increase was primarily due to the issuance of General Obligation Improvement and Refunding Bonds, Series 2018A, and General Obligation Refunding Bonds, Taxable Series 2018B in the amount of \$51,555,000 and \$8,865,000, respectively. This issuance included refunding of the General Obligation Bonds, Series 2007 Combination Tax and Limited Revenue Certificates of Obligation in the principal amount of \$33,920,000. Normal scheduled debt service payments also helped offset the 2018 debt issuances.
- The City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation required a restatement and a prior period adjustment of \$1.6 million to the 2018 beginning net position related to the Other Postemployment Benefit (OPEB) liability (see Note 21). The effects of GASB Statement No. 75 are not reflected in the 2017 financial information.



CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Midland's basic financial statements. The City of Midland's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The Statement of Net Position presents information on all of the City's assets and outflows of resources, and liabilities and inflows of resources 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 City of Midland is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City of Midland that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, development services, engineering, community services, police and fire. The business-type activities of the City include airport, water and sewer, sanitation, sports complex and golf course operations.

The government-wide financial statements include not only the City of Midland itself (known as the primary government), but also legally separate development corporations for economic development and spaceport development for which the City is financially accountable or can impose its will. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements

A fund is a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Midland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.



CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

1. 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 provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Midland maintains 25 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Debt Service Fund, both of which are considered to be major funds. Data for the other 23 governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

2. Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Midland uses enterprise funds to account for its airport, water and sewer, sanitation, sports complex and golf course operations. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City of Midland's various functions. The City uses internal service funds to account for its warehouse, garage, technology equipment and support, and four self-insurance funds. Because the warehouse services predominantly benefit business-type rather than governmental functions, the Warehouse Fund has been included within business-type activities in the government-wide financial statements. The remaining internal service funds predominantly benefit governmental rather than business-type functions and have been included within governmental activities in the government-wide financial statements.





CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Airport Fund, the Water and Sewer Fund, the Sanitation Fund and for the Scharbauer Sports Complex Fund, each of which is considered to be a major fund or designated major fund of the City of Midland.

Although it does not meet the criteria for a major fund, the Golf Course Fund is also presented separately since it is the only remaining enterprise fund. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Notes to 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 City of Midland's progress in funding its obligation to provide pension benefits to its employees, progress in funding its obligations to provide other postemployment benefits to its employees, and budgetary comparison schedules. The City of Midland adopts annual appropriated budgets for its General and Debt Service Funds. A budgetary comparison schedule is presented as required supplementary information for the General Fund to demonstrate budgetary compliance.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position was \$538.0 million at September 30, 2018.

By far the largest portion of the City's net position, 73.0%, reflects its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Midland uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

The restricted portion of the City's net position, \$31.0 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position, which is net of net investments in capital assets and the restricted portion, is referred to as unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

Table 1  
City of Midland's Net Position  
(In Thousands)

|                                   | Governmental<br>Activities |                   | Business-type<br>Activities |                   | Totals            |                   |
|-----------------------------------|----------------------------|-------------------|-----------------------------|-------------------|-------------------|-------------------|
|                                   | 2018                       | 2017              | 2018                        | 2017              | 2018              | 2017              |
| Current and other assets          | \$ 203,820                 | \$ 188,658        | \$ 170,341                  | \$ 114,422        | \$ 374,161        | \$ 303,080        |
| Capital assets                    | 231,808                    | 210,115           | 506,487                     | 514,672           | 738,295           | 724,787           |
| Total assets                      | <u>435,628</u>             | <u>398,774</u>    | <u>676,828</u>              | <u>629,094</u>    | <u>1,112,456</u>  | <u>1,027,868</u>  |
| Deferred outflows of resources    | 67,474                     | 26,604            | 1,341                       | 4,075             | 68,815            | 30,679            |
| Long-term liabilities outstanding | 273,829                    | 205,995           | 316,512                     | 320,470           | 590,341           | 526,465           |
| Other liabilities                 | 23,488                     | 12,099            | 15,182                      | 15,374            | 38,670            | 27,472            |
| Total liabilities                 | 297,317                    | 218,094           | 331,694                     | 335,844           | 629,010           | 553,937           |
| Deferred inflow of resources      | 12,499                     | 1,934             | 1,721                       | 371               | 14,220            | 2,305             |
| Net position:                     |                            |                   |                             |                   |                   |                   |
| Net investment in capital assets  | 174,150                    | 164,184           | 218,454                     | 224,677           | 392,604           | 388,862           |
| Restricted                        | 23,122                     | 16,363            | 7,901                       | 7,033             | 31,023            | 23,396            |
| Unrestricted                      | (3,985)                    | 24,802            | 118,398                     | 65,245            | 114,414           | 90,047            |
| Total net position                | <u>\$ 193,287</u>          | <u>\$ 205,350</u> | <u>\$ 344,754</u>           | <u>\$ 296,955</u> | <u>\$ 538,041</u> | <u>\$ 502,304</u> |

At the end of the current fiscal year, for governmental activities, two categories of net position were positive and one category of net position was negative. For business-type activities, all three categories of net position were positive.

Overall, the City's net position, excluding offset of restatement for GASB Statement No. 75, increased \$34.1 million during the current fiscal year, with governmental activities reflecting a decrease of \$13.7 million and business-type activities increasing \$47.8 million. The decrease in governmental activities net position is due to an increase in revenues and expenses but including large transfers out while the increase in the net position of business type activities is attributable primarily to an increase in revenues and large transfers in.



**CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)**

The following table provides a summary of the City's operations for the year ended September 30, 2018 with comparative totals for the year ended September 30, 2017.

Table 2

City of Midland's Changes in Net Position  
(In Thousands)

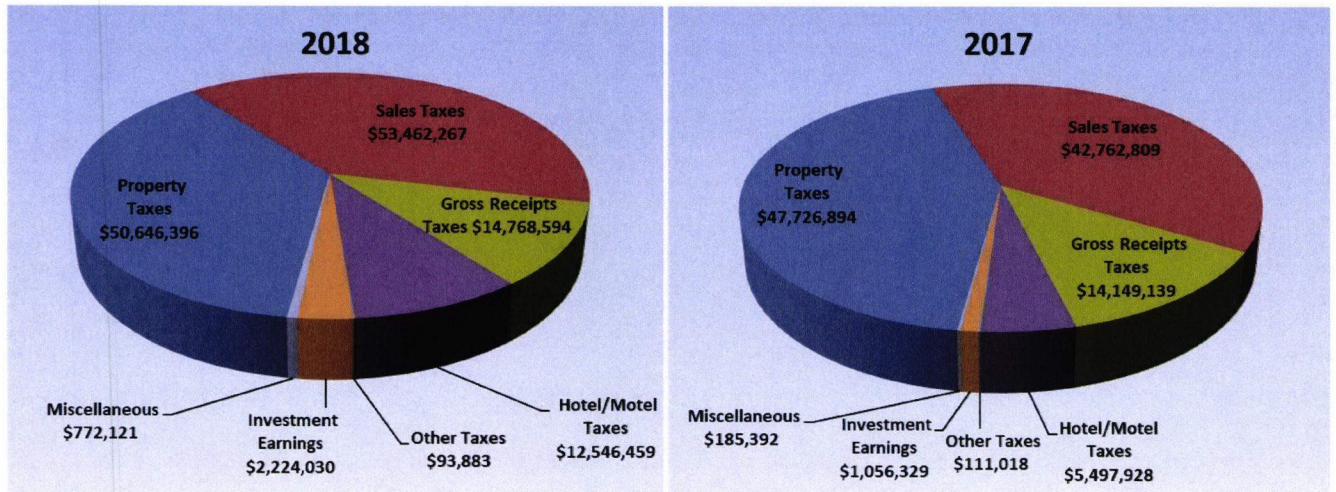
|  | Governmental<br>Activities |                   | Business-type<br>Activities |                   | Totals            |                   |
|--|----------------------------|-------------------|-----------------------------|-------------------|-------------------|-------------------|
|  | 2018                       | 2017              | 2018                        | 2017              | 2018              | 2017              |
| <b>Revenues:</b>                                       |                            |                   |                             |                   |                   |                   |
| <b>Program revenues</b>                                |                            |                   |                             |                   |                   |                   |
| Charges for services                                   | \$ 15,216                  | \$ 14,526         | \$ 122,498                  | \$ 106,995        | \$ 137,713        | \$ 121,520        |
| Operating grants and contributions                     | 1,566                      | 1,738             | -                           | -                 | 1,566             | 1,738             |
| Capital grants and contributions                       | 158                        | 6,696             | 5,603                       | 7,394             | 5,761             | 14,090            |
| <b>General revenues</b>                                |                            |                   |                             |                   |                   |                   |
| Property taxes   | 50,646                     | 47,727            | -                           | -                 | 50,646            | 47,727            |
| Sales taxes  | 53,462                     | 42,763            | -                           | -                 | 53,462            | 42,763            |
| Other taxes  | 27,409                     | 19,758            | -                           | -                 | 27,409            | 19,758            |
| Other  | 2,996                      | 1,242             | 1,713                       | 779               | 4,710             | 2,021             |
| Total revenues   | <u>151,454</u>             | <u>134,449</u>    | <u>129,814</u>              | <u>115,168</u>    | <u>281,268</u>    | <u>249,617</u>    |
| <b>Expenses</b>  |                            |                   |                             |                   |                   |                   |
| <b>General government</b>                              |                            |                   |                             |                   |                   |                   |
| Administration   | 3,274                      | 1,328             | -                           | -                 | 3,274             | 1,328             |
| Support services                                       | 18,279                     | 17,835            | -                           | -                 | 18,279            | 17,835            |
| Fiscal management                                      | 2,574                      | 2,282             | -                           | -                 | 2,574             | 2,282             |
| Other  | 3,715                      | 4,126             | -                           | -                 | 3,715             | 4,126             |
| <b>Development services</b>                            |                            |                   |                             |                   |                   |                   |
| Engineering  | 4,320                      | 3,609             | -                           | -                 | 4,320             | 3,609             |
| <b>Community services</b>                              |                            |                   |                             |                   |                   |                   |
| Police   | 22,116                     | 17,837            | -                           | -                 | 22,116            | 17,837            |
| Fire   | 17,363                     | 17,218            | -                           | -                 | 17,363            | 17,218            |
| Interest on long-term debt                             | 33,012                     | 29,056            | -                           | -                 | 33,012            | 29,056            |
| Airport  | 30,965                     | 32,303            | -                           | -                 | 30,965            | 32,303            |
| Water and sewer  | 2,588                      | 2,868             | -                           | -                 | 2,588             | 2,868             |
| Sanitation   | -                          | -                 | 11,525                      | 13,625            | 11,525            | 13,625            |
| Sports complex   | -                          | -                 | 76,868                      | 71,978            | 76,868            | 71,978            |
| Golf course  | -                          | -                 | 13,978                      | 13,731            | 13,978            | 13,731            |
| Total expenses   | <u>138,205</u>             | <u>128,462</u>    | <u>108,928</u>              | <u>106,293</u>    | <u>247,133</u>    | <u>234,755</u>    |
| <b>Increase in net position</b>                        |                            |                   |                             |                   |                   |                   |
| before transfers and change<br>in accounting principle | 13,249                     | 5,987             | 20,886                      | 8,876             | 34,135            | 14,863            |
| Transfers  | (26,960)                   | 33,757            | 26,960                      | (33,757)          | -                 | -                 |
| Change in accounting principle                         | 1,648                      | -                 | (47)                        | -                 | 1,602             | -                 |
| Increase (decrease) in net position                    | <u>(12,062)</u>            | <u>39,744</u>     | <u>47,799</u>               | <u>(24,881)</u>   | <u>35,737</u>     | <u>14,863</u>     |
| Net position - October 1                               | 205,350                    | 165,606           | 296,955                     | 321,836           | 502,304           | 487,442           |
| Net position - September 30                            | <u>\$ 193,287</u>          | <u>\$ 205,350</u> | <u>\$ 344,754</u>           | <u>\$ 296,955</u> | <u>\$ 538,041</u> | <u>\$ 502,304</u> |



CITY OF MIDLAND, TEXAS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 September 30, 2018  
 (Unaudited)

Governmental Activities

The following charts show the City's general revenues as of September 30, 2018 and 2017.



Revenues for governmental activities were \$151.4 million, and were used to pay for expenses associated with governmental activities of \$138.2 million, excluding transfers to other funds of \$27.0 million.

The City's general revenues provided \$134.5 million, an increase of \$23.0 million from the previous year, to fund the costs associated with activities that are not self-supporting. It is anticipated that governmental activities will not be self-supporting and be paid for through general revenues.

The primary sources of revenue for governmental activities are taxes, fees, investment earnings, grants and contributions, and miscellaneous revenues. During fiscal year 2018, property taxes generated \$50.6 million, an increase of \$2.9 million over the previous year, and were derived from a property tax base of \$12.242 billion, up from \$11.859 billion the previous year, and a property tax rate of 40.8389 cents per hundred dollars valuation, an increase of 0.00871 cents from the previous year. Sales taxes generated \$53.5 million, an increase of \$10.7 million from the previous year. Sales taxes increased due to an upturn in the local economy resulting from increased activity in the oil and gas industry. Gross receipts taxes, or franchise fees, contributed \$14.8 million to operations. Hotel-motel taxes contributed \$0.09 million to operations. Operating grants and contributions provided \$1.6 million, while capital grants and contributions provided another \$0.2 million. Capital grants from the Midland Development Corporation decreased in 2018 compared to 2017 due to less activity. Investment income provided \$2.2 million, an increase of \$1.2 million from the prior year due to higher short term interest rates. Miscellaneous revenues provided \$0.8 million, an increase of \$0.6 million from the previous year.

The most significant expenses of governmental activities are those associated with providing police protection, fire protection, engineering, community services and the support services necessary to provide these services.





CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

Police protection, \$33.0 million, and fire protection, \$30.9 million, represent a combined 46.3% of all governmental activities expenses. Police and fire protection increased \$0.2 million from the previous year.

When combining police and fire protection with engineering, \$22.1 million, community services, \$17.4 million, and support services, \$18.3 million, this represents 88.1% of total governmental activities expenses.

Engineering costs increased compared to the prior year mainly due to focus shifting to larger capital projects to enhance streets and roadways. Projects starting in the current fiscal year contributed to the increase in engineering costs.

Support services increased compared to the prior year and was mainly due to support services focusing on larger capital projects starting in the prior year including a new municipal court building and fire station. Additionally, the completion and capitalization of these large capital projects in the current year resulted in increased depreciation expense which also contributed to the increase in support services.

Governmental activities expenses were primarily funded by \$15.2 million charged for services rendered, \$0.2 million received as capital grants and contributions, and \$107.6 million in general revenues, net of transfers out.

Business-Type Activities

Net position of business-type activities increased \$47.8 million or 16.1% from \$297.0 million to \$344.8 million. Business-type revenues contributed \$129.8 million to the operations of the City, excluding transfers from other funds of \$27.0 million, while business-type expenses amounted to \$108.9 million.

Charges for services for business-type activities increased by \$15.5 million or 14.5%. Airport, water and sewer, sanitation, and golf course combined increased by \$22.1 million. The largest of this increase was water and sewer charges, which increased by \$11.6 million and was primarily due to increased water and sewer rates that became effective in October 2018. The increase was partially offset by a decrease in sports complex charges for services of \$6.6 million. This decrease was due to the termination of the Sports Complex Development Corporation in June 2017 which resulted in less receipts being remitted from the Sports Complex Development Corporation to the sports complex.

Grants and contributions, \$5.6 million, and investment earnings, \$1.7 million, were the other components of business-type activity revenue for the City. Compared to the prior year, grants and contributions decreased by \$1.8 million due to less activity and investment earnings increased by \$0.9 million due to higher short-term interest rates.



CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

Expenses of business-type activities were less than combined revenues and grants. The water and sewer system had \$76.9 million in expenses, up from \$72.0 million in the prior year due mainly to increase in water rates and fees, and sanitation had \$14.0 million in expenses. Airport expenses were \$11.5 million, a decrease of \$2.1 million from fiscal year 2017. This decrease was due to a decrease in project related non-capital expenditures. Expenses were \$3.8 million and \$2.7 million, respectively, for the sports complex and golf course. Net position of the water and sewer, airport, sanitation, sports complex, and golf course increased from fiscal year 2017.

Financial Analysis of the Government's Funds

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

1. Governmental Funds

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

As of the end of the current fiscal year, the City of Midland's governmental funds reported combined ending fund balance of \$154.4 million, an increase of \$1.1 million in comparison with the prior year. Approximately \$61.9 million or 40.1% of this total amount constitutes unassigned fund balance and is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it has already been 1) restricted by specific legal requirements, such as by debt covenants or other purposes (\$66.7 million), 2) committed to pay for specific types of expenditures (\$25.8 million), 3) nonspendable – prepayments or advances (\$0.1 million).

The General Fund is the chief operating fund of the City of Midland. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$61.9 million compared to \$90.9 million last year, while total fund balance was \$84.8 million compared to \$99.6 million in the prior year. As noted above, due to the termination of the Sports Complex Development Corporation, the Scharbauer Sports Complex proprietary fund received \$31.3 million from the General Fund. This transfer contributed to both the decrease in unassigned fund balance and total fund balance.

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 51.7% of total General Fund expenditures, down from 76.8% in 2017, while total fund balance represents 70.8%, compared with 84.1% in 2017, of that same amount.



CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

Fund balance of the City of Midland's General Fund decreased \$14.8 million during the current fiscal year. Key factors for this decrease are as follows:

Taxes were up \$13.9 million or 13.9% compared to the prior year mainly due to increases in property taxes and sales taxes. Property taxes were up \$2.6 million or 6.0% due to an increase in both the property tax base and the property tax rate. Sales tax receipts were up \$10.7 million or 25.0% compared to 2017. Sales tax receipts increased due to increased activity in the oil and gas industry resulting in an upturn in the local economy.

The Sports Complex Development Corporation was terminated in the prior year and as part of the termination procedures, all funds held in trust by the City for the Sports Complex Development Corporation were required to be initially sent to the General Fund. The City Council decided in 2018 to transfer from the General Fund to the Scharbauer Sports Complex proprietary fund \$31.3 million.

The total fund balance for the Debt Service Fund was \$0.3 million in the current year, all of which is restricted for the payment of debt service.

2. Proprietary Funds

The City of Midland's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at the end of the year amounted to \$55.1 million, an increase of \$6.6 million from 2017. Water and Sewer Fund net investment in capital assets decreased by \$3.4 million and total net position increased by \$2.3 million.

Airport Fund unrestricted net position amounted to \$18.6 million, up from \$9.6 million in fiscal year 2017. Net position increased \$10.9 million primarily due to increases in airport activity, PFC revenues and capital grants.

Unrestricted net position of the Sanitation Fund at the end of the year amounted to \$3.5 million, up from \$0.5 million in 2017. Sanitation Fund net investment in capital assets decreased by \$0.4 million from \$12.9 million in 2017 to \$12.5 million in 2018. Overall, total net position in the Sanitation Fund increased \$2.6 million from 2017 to 2018.

The Scharbauer Sports Complex Fund unrestricted net position increased by \$30.4 million from \$2.4 million in 2017 to \$32.8 million in 2018. Total net position at the end of 2018 was \$60.8 million, an increase of \$28.3 million compared to the prior fiscal year; both increase are attributable to \$31.3 million transfer in from the General Fund previously discussed.



CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

Unrestricted net position (deficiency) of the Golf Course Fund at the end of the year amounted to (\$0.2) million, an increase of \$1.4 million from the previous fiscal year. Overall, total net position of the Golf Course Fund increased \$1.1 million from 2017 to 2018 due primarily to transfers in from other funds.

General Fund Budgetary Highlights

The City of Midland allows authorized encumbered budgetary funds to carry forward from one fiscal year to the next fiscal year. Thus, revising the carry forward from one fiscal year to the next authorized budget numbers. These changes resulted in an overall increase in budgeted expenditures of \$1.8 million or 1.6% from the original budget. Overall, expenditures were \$5.8 million over budget mainly due to capital outlay expenditures being \$5.8 million over budget. This was due to more than anticipated capital related activity in FY18.

Management's estimate of the General Fund's budgeted revenues was unchanged from the original budget. Taxes of \$113.9 million were \$17.5 million higher than budgeted. This was mainly due to sales taxes of \$53.5 million being \$10.7 million higher than budgeted resulting from improvements in the local economy as activity in the oil and gas industry increased. Charges for services of \$19.4 million were \$17.1 million higher than originally budgeted. This was due to the increased activity within the surrounding area; however, adjustments of \$14.5 million were done on a budgetary basis to address the increase for needed funds.

Transfers from the General Fund include the \$31.3 million transfer to the Scharbauer Sports Complex proprietary fund resulting from the termination of the Sports Complex Development Corporation and allocation authorized by the City Council.

Capital Assets and Debt Administration

Capital Assets

The City of Midland's investment in capital assets for its governmental and business type activities as of September 30, 2018 amounts to \$738.3 million (net of accumulated depreciation), compared to \$724.8 million (net of accumulated depreciation) at September 30, 2017. This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, intangible and other assets, and construction in progress. Capital asset detail can also be found in Note 5 to the financial statements.





**CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)**

Table 4  
Capital Assets  
(Net of Depreciation, In Thousands)

|                                   | Governmental<br>Activities |            | Business-type<br>Activities |            | Totals     |            |
|-----------------------------------|----------------------------|------------|-----------------------------|------------|------------|------------|
|                                   | 2018                       | 2017       | 2018                        | 2017       | 2018       | 2017       |
| Land                              | \$ 10,284                  | \$ 10,080  | \$ 14,479                   | \$ 14,479  | \$ 24,762  | \$ 24,559  |
| Buildings                         | 37,279                     | 38,610     | 36,611                      | 38,403     | 73,891     | 77,012     |
| Improvements other than buildings | 17,051                     | 18,113     | 47,817                      | 50,487     | 64,867     | 68,601     |
| Machinery and equipment           | 28,416                     | 31,527     | 2,827                       | 3,423      | 31,243     | 34,950     |
| Infrastructure                    | 103,015                    | 100,183    | 389,508                     | 403,597    | 492,524    | 503,780    |
| Intangible and other              | 1,015                      | 820        | 671                         | 985        | 1,686      | 1,805      |
| Construction in progress          | 34,748                     | 10,782     | 14,575                      | 3,298      | 49,323     | 14,080     |
| Totals                            | \$ 231,808                 | \$ 210,115 | \$ 506,487                  | \$ 514,672 | \$ 738,295 | \$ 724,787 |

Major capital asset events during fiscal year 2018 included the following:

Support Services – Construction of a Sprayberry Effluent Pump Station and completion of the Grassland Estates Development Project

Engineering – The City completed several street projects including the Lamesa Mill and Inlay and the Fairgrounds Widening Project.

Airport – Reconstruction of infrastructure and several runways and taxiways at the Midland International Air and Space Port were completed.



CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

Long-Term Debt

At the end of the current fiscal year, the City of Midland had total bond debt outstanding of \$153.7 million. Of this amount, \$100.9 million is general government bond debt. Business-type activity debt supported by Water and Sewer system revenues was \$288.3 million, comprised of bond debt of \$51.1 million and a capital lease obligation of \$235.5 million. Bond debt supported by Golf Course revenues was \$1.7 million.

Table 5  
General Obligation Debt, at Year-end  
(In Thousands)

|   | Governmental<br>Activities |                  | Business-type<br>Activities |                   | Totals            |                   |
|---|----------------------------|------------------|-----------------------------|-------------------|-------------------|-------------------|
|   | 2018                       | 2017             | 2018                        | 2017              | 2018              | 2017              |
| Certificates of Obligation serviced<br>by tax revenues              | \$ 96,734                  | \$ 78,536        | \$ 8,615                    | \$ -              | \$ 105,349        | \$ 78,536         |
| General Obligation Bonds serviced<br>by tax revenues                | 4,175                      | 1,560            | -                           | -                 | 4,175             | 1,560             |
| Certificates of Obligation serviced<br>by Enterprise Funds revenues | -                          | -                | 15,592                      | 56,053            | 15,592            | 56,053            |
| General Obligation Bonds serviced<br>by Enterprise Funds revenues   | -                          | -                | 28,544                      | -                 | 28,544            | -                 |
| Capital Lease Obligation  | -                          | -                | 235,485                     | 234,097           | 235,485           | 234,097           |
|   | <u>\$ 100,909</u>          | <u>\$ 80,096</u> | <u>\$ 288,236</u>           | <u>\$ 290,150</u> | <u>\$ 389,144</u> | <u>\$ 370,246</u> |

The City of Midland's general obligation debt increased by \$37.1million during the current fiscal year. The increase was primarily due to the issuance of General Obligation Improvement and Refunding Bonds, Series 2018A, and General Obligation Refunding Bonds, Taxable Series 2018B in the amount of \$51,555,000 and \$8,865,000, respectively. This issuance included the refunding of the General Obligation Bonds, Series 2007 Combination Tax and Limited Revenue Certificates of Obligation in the principal amount of \$33,920,000. Normal scheduled debt service payments reduced debt by \$51.8 million. Debt serviced by tax revenues increased by \$20.8 million and debt serviced by enterprise fund revenues decreased by \$11.9 million. The City maintains an AAA rating with Fitch Ratings, Inc. and AA+ rating with Standard & Poor's on tax-supported debt.

The City of Midland carefully plans debt acquisitions to fund only capital replacement and new construction. This process includes matching the maturity of the debt to the useful lives of the assets to be funded, as closely as possible. This allows for the use of debt to compliment operations by allowing for matching the cash flows of asset cost to the period deriving the benefit from the asset.

Additionally, this allows the City to plan for and structure debt payments in such a manner that debt service tends to be generally declining across the years creating a known, decreasing demand upon resources for debt service and limiting the demand upon resources to a managed level. As a result of the development and refinement of this process, the impact of current debt upon present and future operations is minimized and annual operations can be based upon a known level of expendable, available resources to respond to the immediate needs of the City.



CITY OF MIDLAND, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2018  
(Unaudited)

The Constitution and Statutes of the State of Texas and the Charter of the City of Midland do not provide for a legal debt limit. However, the 8% debt limit rate used to calculate the debt margin of \$827.3 million has been adopted by the City Council as a safe debt limit.

Additional information concerning the City's long-term debt may be found in Note 9 of the Notes to Financial Statements.

Economic Factors and Next Year's Budgets and Rates

Midland's economy rose during 2017 due to rising oil prices but started to increase more in 2018 as activity in the oil and gas industry increased. As a result, the City's sales tax receipts increased in the current year. Additionally, property taxes were up due to an increase in assessed property values and an increase in the property tax rate.

The budgetary process for fiscal year 2019 focused on maintaining funding for street improvements, increasing funding for traffic control operations, increasing investment in personnel and equipment and vehicles, and evaluation of major revenue streams of the General Fund, specifically sales tax revenue. The budget presented for the major operating funds of the City for fiscal year 2019 totals \$294.5 million, a 14.5% increase from the prior year.

The fiscal year 2019 major operating funds budget is supported by combined revenues of \$269.8 million, up 15.7% from the prior year budget. The combined property tax rate is 39.2249 cents per \$100 valuation, compared with a rate of 40.8389 in fiscal year 2018, a 4.0% decrease. Property tax revenue will increase from last year's budget by \$1.2 million or 10.0%. The property tax revenue to be raised from new property added to the tax roll is \$2.7 million. Sales tax receipts, another major revenue source, are budgeted at \$48.0 million, an increase of \$10.0 million compared to the prior year.

Request for Information

This financial report is designed to provide a general overview of the City of Midland's finances for all those with an interest in the government's finances. Questions concerning information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Midland, P.O. Box 1152, 300 N. Loraine, Midland, TX 79702-1152.



**BASIC FINANCIAL STATEMENTS**





CITY OF MIDLAND, TEXAS

STATEMENT OF NET POSITION

September 30, 2018

|   | Primary Government      |                          |                | Component Units                   |  |
|---|-------------------------|--------------------------|----------------|-----------------------------------|--|
|   | Governmental Activities | Business-Type Activities | Total          | Spaceport Development Corporation | Midland Economic Development Corporation |
| <b>ASSETS</b>                                   |                         |                          |                |                                   |  |
| Cash and cash equivalents                       | \$ 110,726,917          | \$ 103,032,278           | \$ 213,759,195 | \$ 560,711                        | \$ 25,420,106                            |
| Investments                                     | 34,834,056              | 30,862,116               | 65,696,172     | -                                 | -  |
| Receivables (net of allowance where applicable) |                         |                          |                |                                   |  |
| Property taxes                                  | 798,708                 | -                        | 798,708        | -                                 | -  |
| Sales taxes                                     | 9,985,986               | -                        | 9,985,986      | -                                 | 2,484,097                                |
| Accounts  | 4,603,788               | 15,424,800               | 20,028,588     | -                                 | 127,774                                  |
| Interest  | 101,508                 | 84,918                   | 186,426        | 1,011                             | -  |
| Assessments                                     | 509,058                 | -                        | 509,058        | -                                 | -  |
| Intergovernmental                               | 712,880                 | -                        | 712,880        | 697,107                           | -  |
| Prepaid items and other assets                  | 172,571                 | 23,237                   | 195,808        | -                                 | 83,600                                   |
| Inventories                                     | 417,279                 | 401,594                  | 818,873        | -                                 | -  |
| Due from primary government                     | -                       | -                        | -              | -                                 | 5,911,873                                |
| Internal balances                               | (7,798,252)             | 7,798,252                | -              | -                                 | -  |
| Notes receivable                                | -                       | 502,629                  | 502,629        | -                                 | 1,204,686                                |
| Restricted assets                               |                         |                          |                |                                   |  |
| Cash and cash equivalents                       | 43,411,512              | 10,464,734               | 53,876,246     | -                                 | -  |
| Investments                                     | 5,330,079               | 1,432,039                | 6,762,118      | -                                 | -  |
| Interest receivable                             | 13,735                  | -                        | 13,735         | -                                 | -  |
| Accounts receivable                             | -                       | 314,445                  | 314,445        | -                                 | -  |
| Capital assets                                  |                         |                          |                |                                   |  |
| Nondepreciable                                  | 45,031,619              | 29,053,185               | 74,084,804     | -                                 | -  |
| Depreciable, net of accumulated depreciation    | 186,776,476             | 477,433,935              | 664,210,411    | 2,417,931                         | 18,642,208                               |
| Total assets                                    | 435,627,920             | 676,828,162              | 1,112,456,082  | 3,676,760                         | 53,874,344                               |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>           |                         |                          |                |                                   |  |
| Loss on refunding                               | 84,106                  | -                        | 84,106         | -                                 | -  |
| Pension items                                   | 66,585,575              | 1,172,211                | 67,757,786     | -                                 | -  |
| OPEB items                                      | 804,506                 | 168,729                  | 973,235        | -                                 | -  |
| Total deferred outflows of resources            | 67,474,187              | 1,340,940                | 68,815,127     | -                                 | -  |
| Total assets and deferred outflows of resources | 503,102,107             | 678,169,102              | 1,181,271,209  | 3,676,760                         | 53,874,344                               |



|   | Primary Government         |                             |                       | Component Units                         |   |
|---|----------------------------|-----------------------------|-----------------------|---|---|
|   | Governmental<br>Activities | Business-Type<br>Activities | Total                 | Spaceport<br>Development<br>Corporation | Midland<br>Economic<br>Development<br>Corporation |
| <b>LIABILITIES</b>                                  |                            |                             |                       |   |   |
| Accounts payable and other accrued liabilities      | \$ 11,864,211              | \$ 9,772,487                | \$ 21,636,698         | \$ -                                    | \$ 708,069  |
| Accrued payroll                                     | 4,095,032                  | 791,227                     | 4,886,259             | -                                       | -   |
| Accrued interest payable                            | 440,218                    | -                           | 440,218               | -                                       | -   |
| Retainage payable                                   | 1,128,795                  | 203,548                     | 1,332,343             | 121,369                                 | -   |
| Customer deposits                                   | -                          | 3,625,051                   | 3,625,051             | -                                       | -   |
| Due to component unit                               | 5,911,873                  | -                           | 5,911,873             | -                                       | -   |
| Unearned revenue                                    | 47,419                     | 322,279                     | 369,698               | -                                       | -   |
| Liabilities payable from restricted assets          | -                          | 467,444                     | 467,444               | -                                       | -   |
| Long-term liabilities                               |                            |                             |                       |   |   |
| Due within one year                                 | 9,735,094                  | 2,495,048                   | 12,230,142            | 698,107                                 | 75,578  |
| Due in more than one year                           | 264,093,784                | 314,016,963                 | 578,110,747           | -                                       | 245,404   |
| Total liabilities                                   | 297,316,426                | 331,694,047                 | 629,010,473           | 819,476                                 | 1,029,051   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                |                            |                             |                       |   |   |
| Pension items                                       | 12,449,980                 | 1,712,502                   | 14,162,482            | -                                       | -   |
| OPEB items  | 48,860                     | 8,808                       | 57,668                | -                                       | -   |
| Total deferred inflows of resources                 | 12,498,840                 | 1,721,310                   | 14,220,150            | -                                       | -   |
| Total liabilities and deferred inflows of resources | 309,815,266                | 333,415,357                 | 643,230,623           | 819,476                                 | 1,029,051   |
| <b>NET POSITION</b>                                 |                            |                             |                       |   |   |
| Net investment in capital assets                    | \$ 174,150,136             | \$ 218,454,203              | \$ 392,604,339        | \$ 2,296,562                            | \$ 18,305,924                                     |
| Restricted for                                      |                            |                             |                       |   |   |
| Debt service  | 388,464                    | 142,353                     | 530,817               | -                                       | -   |
| Public safety                                       | 1,103,416                  | -                           | 1,103,416             | -                                       | -   |
| Court   | 696,779                    | -                           | 696,779               | -                                       | -   |
| Buildings and renovations                           | 3,965,150                  | -                           | 3,965,150             | -                                       | -   |
| Parks and recreation                                | 1,479                      | -                           | 1,479                 | -                                       | -   |
| Hotel/Motel   | 15,428,012                 | -                           | 15,428,012            | -                                       | -   |
| Passenger facility improvements                     | -                          | 7,759,012                   | 7,759,012             | -                                       | -   |
| Other purposes                                      | 1,538,141                  | -                           | 1,538,141             | 560,722                                 | -   |
| Unrestricted (deficit)                              | (3,984,736)                | 118,398,177                 | 114,413,441           | -                                       | 34,539,369  |
| <b>TOTAL NET POSITION</b>                           | <b>\$ 193,286,841</b>      | <b>\$ 344,753,745</b>       | <b>\$ 538,040,586</b> | <b>\$ 2,857,284</b>                     | <b>\$ 52,845,293</b>                              |

See Accompanying Notes to Financial Statements.



CITY OF MIDLAND, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

| FUNCTIONS/PROGRAMS                            | Expenses              | Program Revenues      |                                    |                                  |
|---|-----------------------|-----------------------|------------------------------------|----------------------------------|
|   |                       | Charges for Services  | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>PRIMARY GOVERNMENT</b>                     |                       |                       |                                    |                                  |
| Governmental Activities                       |                       |                       |                                    |                                  |
| General government                            |                       |                       |                                    |                                  |
| Administration                                | \$ 3,274,430          | \$ 670,945            | \$ -                               | \$ -                             |
| Support services                              | 18,082,917            | 487,601               | -                                  | 48,595                           |
| Fiscal management                             | 2,573,605             | 3,147                 | -                                  | -                                |
| Other   | 3,714,631             | 529,158               | -                                  | -                                |
| Development services                          | 4,320,319             | 3,663,827             | 751,270                            | -                                |
| Engineering                                   | 22,463,436            | 24,650                | -                                  | -                                |
| Community services                            | 17,362,841            | 1,557,952             | 362,222                            | -                                |
| Police  | 32,888,963            | 5,044,874             | 433,711                            | 98,211                           |
| Fire  | 30,936,240            | 3,233,630             | 19,248                             | 11,478                           |
| Interest and fiscal charges on long-term debt | 2,587,862             | -                     | -                                  | -                                |
| Total governmental activities                 | 138,205,244           | 15,215,784            | 1,566,451                          | 158,284                          |
| Business-Type Activities                      |                       |                       |                                    |                                  |
| Airport                                       | 11,525,312            | 20,443,321            | -                                  | 3,875,224                        |
| Water and sewer                               | 76,868,084            | 79,858,913            | -                                  | 1,727,411                        |
| Sanitation                                    | 13,977,814            | 18,575,987            | -                                  | -                                |
| Sports complex                                | 3,828,851             | 985,826               | -                                  | -                                |
| Golf course                                   | 2,727,783             | 2,633,486             | -                                  | -                                |
| Total business-type activities                | 108,927,844           | 122,497,533           | -                                  | 5,602,635                        |
| <b>TOTAL PRIMARY GOVERNMENT</b>               | <b>\$ 247,133,088</b> | <b>\$ 137,713,317</b> | <b>\$ 1,566,451</b>                | <b>\$ 5,760,919</b>              |
| <b>COMPONENT UNITS</b>                        |                       |                       |                                    |                                  |
| Spaceport Development Corporation             | \$ 32,559             | \$ -                  | \$ 312,516                         | \$ -                             |
| Midland Economic Development Corporation      | 7,299,332             | -                     | -                                  | -                                |
| <b>TOTAL COMPONENT UNITS</b>                  | <b>\$ 7,331,891</b>   | <b>\$ -</b>           | <b>\$ 312,516</b>                  | <b>\$ -</b>                      |



| <b>Net (Expense) Revenue and Change in Net Position</b> |                                     |                       |  |   |                      |
|---|-------------------------------------|-----------------------|--|---|----------------------|
| <b>Primary Government</b>                               |                                     |                       | <b>Component Units</b>                           |   |                      |
| <b>Governmental<br/>Activities</b>                      | <b>Business-Type<br/>Activities</b> | <b>Total</b>          | <b>Spaceport<br/>Development<br/>Corporation</b> | <b>Midland<br/>Economic<br/>Development<br/>Corporation</b> |                      |
| \$ (2,603,485)  | \$ -                                | \$ (2,603,485)        | \$ -   | \$ -  |                      |
| (17,546,721)  | -                                   | (17,546,721)          | -  | -   |                      |
| (2,570,458)   | -                                   | (2,570,458)           | -  | -   |                      |
| (3,185,473)   | -                                   | (3,185,473)           | -  | -   |                      |
| 94,778  | -                                   | 94,778                | -  | -   |                      |
| (22,438,786)  | -                                   | (22,438,786)          | -  | -   |                      |
| (15,442,667)  | -                                   | (15,442,667)          | -  | -   |                      |
| (27,312,167)  | -                                   | (27,312,167)          | -  | -   |                      |
| (27,671,884)  | -                                   | (27,671,884)          | -  | -   |                      |
| (2,587,862)   | -                                   | (2,587,862)           | -  | -   |                      |
| (121,264,725)   | -                                   | (121,264,725)         | -  | -   |                      |
| -   | 12,793,233                          | 12,793,233            | -  | -   |                      |
| -   | 4,718,240                           | 4,718,240             | -  | -   |                      |
| -   | 4,598,173                           | 4,598,173             | -  | -   |                      |
| -   | (2,843,025)                         | (2,843,025)           | -  | -   |                      |
| -   | (94,297)                            | (94,297)              | -  | -   |                      |
| -   | 19,172,324                          | 19,172,324            | -  | -   |                      |
| (121,264,725)   | 19,172,324                          | (102,092,401)         | -  | -   |                      |
| -   | -                                   | -                     | 279,957  | -   |                      |
| -   | -                                   | -                     | -  | (7,299,332)   |                      |
| -   | -                                   | -                     | 279,957  | (7,299,332)   |                      |
| <b>General Revenues</b>                                 |                                     |                       |  |   |                      |
| <b>Taxes</b>  |                                     |                       |  |   |                      |
| Property  | 50,646,396                          | -                     | 50,646,396                                       | -   | -                    |
| Sales   | 53,462,267                          | -                     | 53,462,267                                       | -   | 13,353,167           |
| Gross receipts and mixed beverages                      | 14,768,594                          | -                     | 14,768,594                                       | -   | -                    |
| Hotel-motel   | 12,546,459                          | -                     | 12,546,459                                       | -   | -                    |
| Other   | 93,883                              | -                     | 93,883   | -   | -                    |
| Investment income                                       | 2,224,030                           | 1,713,385             | 3,937,415  | 12  | 365,937              |
| Miscellaneous   | 772,117                             | -                     | 772,117  | -   | 392,641              |
| Transfers in (out)                                      | (26,960,087)                        | 26,960,087            | -  | -   | -                    |
| <b>Total</b>  | <b>107,553,659</b>                  | <b>28,673,472</b>     | <b>136,227,131</b>                               | <b>12</b>   | <b>14,111,745</b>    |
| <b>CHANGE IN NET POSITION</b>                           | <b>(13,711,066)</b>                 | <b>47,845,796</b>     | <b>34,134,730</b>                                | <b>279,969</b>  | <b>6,812,413</b>     |
| <b>NET POSITION, OCTOBER 1</b>                          | <b>205,349,564</b>                  | <b>296,954,723</b>    | <b>502,304,287</b>                               | <b>2,577,315</b>  | <b>46,032,880</b>    |
| Change in accounting principle                          | 1,648,343                           | (46,774)              | 1,601,569  | -   | -                    |
| <b>NET POSITION, OCTOBER 1, AS RESTATED</b>             | <b>206,997,907</b>                  | <b>296,907,949</b>    | <b>503,905,856</b>                               | <b>2,577,315</b>  | <b>46,032,880</b>    |
| <b>NET POSITION, SEPTEMBER 30</b>                       | <b>\$ 193,286,841</b>               | <b>\$ 344,753,745</b> | <b>\$ 538,040,586</b>                            | <b>\$ 2,857,284</b>   | <b>\$ 52,845,293</b> |

See Accompanying Notes to Financial Statements.





CITY OF MIDLAND, TEXAS

BALANCE SHEET  
GOVERNMENTAL FUNDS

September 30, 2018

|  | General               | Debt<br>Service   | Nonmajor             | Total                 |
|--|-----------------------|-------------------|----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                   |                      |                       |
| <b>ASSETS</b>  |                       |                   |                      |                       |
| Cash and cash equivalents  | \$ 66,072,685         | \$ 119,255        | \$ 65,804,674        | \$ 131,996,614        |
| Investments  | 23,291,171            | 154,644           | 6,315,314            | 29,761,129            |
| Receivables (net, where applicable,<br>of allowances for uncollectibles) |                       |                   |                      |                       |
| Property taxes   | 688,815               | 109,893           | -                    | 798,708               |
| Sales taxes  | 9,985,986             | -                 | -                    | 9,985,986             |
| Accounts   | 2,016,575             | 3,465             | 2,402,904            | 4,422,944             |
| Interest   | 71,684                | 1,207             | 15,536               | 88,427                |
| Assessments  | 509,058               | -                 | -                    | 509,058               |
| Intergovernmental  | 105,407               | -                 | 607,473              | 712,880               |
| Prepaid items and other assets   | 102,773               | -                 | -                    | 102,773               |
| Due from other funds   | 534,165               | -                 | -                    | 534,165               |
| <b>TOTAL ASSETS</b>  | <b>\$ 103,378,319</b> | <b>\$ 388,464</b> | <b>\$ 75,145,901</b> | <b>\$ 178,912,684</b> |

(This statement is continued on the following page.)



CITY OF MIDLAND, TEXAS

BALANCE SHEET (Continued)  
GOVERNMENTAL FUNDS

September 30, 2018

|  | General               | Debt<br>Service   | Nonmajor             | Total                 |
|--|-----------------------|-------------------|----------------------|-----------------------|
| <b>LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES, AND FUND BALANCES</b>       |                       |                   |                      |                       |
| <b>LIABILITIES</b>   |                       |                   |                      |                       |
| Accounts payable   | \$ 3,551,860          | \$ -              | \$ 4,428,684         | \$ 7,980,544          |
| Accrued payroll  | 3,969,957             | -                 | -                    | 3,969,957             |
| Retainage payable  | 298,907               | -                 | 829,888              | 1,128,795             |
| Due to other funds   | -                     | -                 | 534,165              | 534,165               |
| Due to component unit  | 5,911,873             | -                 | -                    | 5,911,873             |
| Unearned revenue   | 47,419                | -                 | -                    | 47,419                |
| Other liabilities  | 2,723,303             | -                 | -                    | 2,723,303             |
| Total liabilities  | 16,503,319            | -                 | 5,792,737            | 22,296,056            |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                       |                   |                      |                       |
| Unavailable revenue  | 2,093,574             | 94,307            | -                    | 2,187,881             |
| Total deferred inflows of resources  | 2,093,574             | 94,307            | -                    | 2,187,881             |
| Total liabilities and deferred inflows of resources                            | 18,596,893            | 94,307            | 5,792,737            | 24,483,937            |
| <b>FUND BALANCES</b>   |                       |                   |                      |                       |
| Nonspendable   |                       |                   |                      |                       |
| Prepayments  | 102,773               | -                 | -                    | 102,773               |
| Restricted   |                       |                   |                      |                       |
| Debt service   | -                     | 294,157           | -                    | 294,157               |
| Public safety  | 13,794                | -                 | 1,089,622            | 1,103,416             |
| Court  | 129,332               | -                 | 567,447              | 696,779               |
| Communications   | -                     | -                 | 275,573              | 275,573               |
| Downtown   | -                     | -                 | 588,770              | 588,770               |
| Buildings and renovations  | -                     | -                 | 25,326,788           | 25,326,788            |
| Streets and drainage   | -                     | -                 | 21,136,386           | 21,136,386            |
| Parks and recreation   | -                     | -                 | 273,062              | 273,062               |
| Hotel/Motel  | -                     | -                 | 15,428,012           | 15,428,012            |
| Other purposes   | -                     | -                 | 1,538,529            | 1,538,529             |
| Unrestricted   |                       |                   |                      |                       |
| Committed  |                       |                   |                      |                       |
| Buildings and renovations  | 917,656               | -                 | 270,287              | 1,187,943             |
| Streets and drainage   | 12,845,822            | -                 | 2,858,688            | 15,704,510            |
| Parks and recreation   | 1,498,324             | -                 | -                    | 1,498,324             |
| Public safety  | 356,464               | -                 | -                    | 356,464               |
| Technology   | 5,652,914             | -                 | -                    | 5,652,914             |
| Other purposes   | 1,375,804             | -                 | -                    | 1,375,804             |
| Unassigned   | 61,888,543            | -                 | -                    | 61,888,543            |
| Total fund balances  | 84,781,426            | 294,157           | 69,353,164           | 154,428,747           |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES, AND FUND BALANCES</b> | <b>\$ 103,378,319</b> | <b>\$ 388,464</b> | <b>\$ 75,145,901</b> | <b>\$ 178,912,684</b> |

See Accompanying Notes to Financial Statements.



**CITY OF MIDLAND, TEXAS**

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION

September 30, 2018

|   |                       |
|---|-----------------------|
| <b>FUND BALANCES OF GOVERNMENTAL FUNDS</b>  | \$ 154,428,747        |
| Amounts reported for governmental activities in the statement of net position are different because:  |                       |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds   | 210,383,041           |
| Certain revenues receivable by the City and recognized in the statement of net position do not provide current financial resources and are deferred in the governmental funds balance sheet   | 2,187,881             |
| Differences between expected and actual experiences, assumption changes, contributions made after the measurement date, and net differences between projected and actual earnings for TMRS and the Firefighters' Pension Fund are recognized as deferred outflows of resources and deferred inflows of resources on the statement of net position |                       |
| Deferred outflows of resources  | 66,402,100            |
| Deferred inflows of resources   | (12,148,910)          |
| Total other postemployment benefits liability is shown as a liability on the statement of net position  | (23,916,780)          |
| Differences between expected and actual experiences, assumption changes, net differences between projected, and actual earnings for other postemployment benefits are recognized as deferred outflows and inflows of resources on the statement of net position   | 730,325               |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds  |                       |
| Compensated absences payable  | (4,630,593)           |
| Bonds, leases, and notes payable  | (91,632,587)          |
| Premium on bonds  | (9,275,982)           |
| Loss on refunding   | 84,106                |
| Net pension liability   | (138,500,075)         |
| Accrued interest on long-term liabilities is reported as a liability on the statement of net position   | (440,218)             |
| The portion of the net position of the internal service funds primarily serving the governmental funds are included in the governmental activities in the statement of net position   | 39,615,786            |
| Cash  | \$ 22,141,815         |
| Investments   | 10,403,006            |
| Receivables   | 207,660               |
| Capital assets net of depreciation  | 21,425,054            |
| Internal balances   | (7,798,252)           |
| Other assets  | 487,077               |
| Deferred outflows related to pensions   | 183,475               |
| Deferred outflows related to OPEB   | 26,709                |
| Current liabilities   | (2,974,336)           |
| Noncurrent liabilities  | (4,183,964)           |
| Deferred inflows related to pensions  | (301,070)             |
| Deferred inflows related to OPEB  | (1,388)               |
| <b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>  | <b>\$ 193,286,841</b> |

See Accompanying Notes to Financial Statements.



**CITY OF MIDLAND, TEXAS**

STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

|  | <b>General</b>       | <b>Debt<br/>Service</b> | <b>Nonmajor</b>      | <b>Total</b>          |
|--|----------------------|-------------------------|----------------------|-----------------------|
| <b>REVENUES</b>  |                      |                         |                      |                       |
| Taxes  | \$ 113,951,964       | \$ 5,019,176            | \$ 13,550,335        | \$ 132,521,475        |
| Licenses and permits   | 2,963,061            | -                       | 64,445               | 3,027,506             |
| Fines and forfeitures  | 4,710,743            | -                       | 135,877              | 4,846,620             |
| Charges for services   | 4,845,556            | -                       | -                    | 4,845,556             |
| Rentals  | 223,989              | -                       | 8,113                | 232,102               |
| Program income   | -                    | -                       | 179,790              | 179,790               |
| Intergovernmental  | 815,181              | -                       | 749,180              | 1,564,361             |
| Investment earnings  |                      |                         |                      |                       |
| Interest income  | 1,369,451            | 43,219                  | 829,198              | 2,241,868             |
| Net increase (decrease) in<br>the fair value of investments  | (327,804)            | (1,924)                 | (64,895)             | (394,623)             |
| Contributions and donations                                  | 48,595               | -                       | 111,779              | 160,374               |
| Miscellaneous  | 1,592,279            | -                       | 260,174              | 1,852,453             |
| <b>Total revenues</b>  | <b>130,193,015</b>   | <b>5,060,471</b>        | <b>15,823,996</b>    | <b>151,077,482</b>    |
| <b>EXPENDITURES</b>  |                      |                         |                      |                       |
| Current  |                      |                         |                      |                       |
| General government   |                      |                         |                      |                       |
| Administration   | 1,446,093            | -                       | -                    | 1,446,093             |
| Support services   | 14,938,860           | -                       | -                    | 14,938,860            |
| Fiscal management  | 2,098,600            | -                       | -                    | 2,098,600             |
| Development services   | 3,505,250            | -                       | -                    | 3,505,250             |
| Engineering  | 15,519,206           | -                       | -                    | 15,519,206            |
| Community services   | 11,010,270           | -                       | -                    | 11,010,270            |
| Police   | 27,772,640           | -                       | -                    | 27,772,640            |
| Fire   | 28,203,934           | -                       | -                    | 28,203,934            |
| Housing programs   | -                    | -                       | 433,743              | 433,743               |
| Economic development   | -                    | -                       | 3,016,266            | 3,016,266             |
| Other  | 3,305,082            | -                       | 666,819              | 3,971,901             |
| Debt Service   |                      |                         |                      |                       |
| Principal  | -                    | 3,710,172               | -                    | 3,710,172             |
| Interest   | -                    | 2,899,644               | -                    | 2,899,644             |
| Fiscal charges   | -                    | 2,146                   | -                    | 2,146                 |
| Issuance costs   | -                    | 230,717                 | -                    | 230,717               |
| Capital outlay   | 11,872,633           | -                       | 19,141,093           | 31,013,726            |
| <b>Total expenditures</b>                                    | <b>119,672,568</b>   | <b>6,842,679</b>        | <b>23,257,921</b>    | <b>149,773,168</b>    |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <b>10,520,447</b>    | <b>(1,782,208)</b>      | <b>(7,433,925)</b>   | <b>1,304,314</b>      |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                      |                         |                      |                       |
| Transfers in   | 6,463,236            | 1,794,050               | 2,500                | 8,259,786             |
| Transfers (out)  | (31,966,157)         | -                       | (1,818,737)          | (33,784,894)          |
| Bonds issued   | -                    | 3,420,000               | 22,195,000           | 25,615,000            |
| Payment to escrow agent                                      | -                    | (4,064,106)             | -                    | (4,064,106)           |
| Premium on bonds   | -                    | 492,074                 | 3,042,973            | 3,535,047             |
| Proceeds from sale of asset                                  | 191,405              | -                       | -                    | 191,405               |
| <b>Total other financing sources (uses)</b>                  | <b>(25,311,516)</b>  | <b>1,642,018</b>        | <b>23,421,736</b>    | <b>(247,762)</b>      |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>(14,791,069)</b>  | <b>(140,190)</b>        | <b>15,987,811</b>    | <b>1,056,552</b>      |
| <b>FUND BALANCES, OCTOBER 1</b>                              | <b>99,572,495</b>    | <b>434,347</b>          | <b>53,365,353</b>    | <b>153,372,195</b>    |
| <b>FUND BALANCES, SEPTEMBER 30</b>                           | <b>\$ 84,781,426</b> | <b>\$ 294,157</b>       | <b>\$ 69,353,164</b> | <b>\$ 154,428,747</b> |

See Accompanying Notes to Financial Statements.





**CITY OF MIDLAND, TEXAS**

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE  
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

**NET CHANGE IN FUND BALANCES -**  
**TOTAL GOVERNMENTAL FUNDS** **\$ 1,056,552**

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

|  |                  |
|--|------------------|
| Governmental funds report capital outlay as expenditures; however, they are capitalized and depreciated in the statement of activities. This also includes developer contributed assets  | 35,084,315       |
| In the statement of activities, only the gain or loss on the sale of capital assets is reported; however, in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balance by the net book value of the assets sold. | (3,843)          |
| Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds<br>Depreciation of capital assets  | (12,045,450)     |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (i.e., earned but unavailable revenues). This is the net change in these revenues  | (1,319,360)      |
| The issuance of long-term debt provides current financial resources to governmental funds<br>Bonds issued  | (25,615,000)     |
| Payment to escrow agent  | 3,980,000        |
| The repayment of the principal portion of long-term debt is reported as an expenditure when due in governmental funds but as a reduction of principal outstanding in the statement of activities   | 3,710,172        |
| The change in accrued interest payable on long-term debt is reported as an expense on the statement of activities  | (102,784)        |
| The change in loss on refunding on long-term debt is reported as an expense on the statement of activities   | 84,106           |
| Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount of the current year, net of these differences.   | (2,887,618)      |
| 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<br>Compensated absences  | (303,129)        |
| Other postemployment benefits  | (1,538,643)      |
| Pension costs, net   | (16,435,490)     |
| Internal service funds are used by management to charge the costs of the garage, warehouse, and three self-insurance funds to other individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.  | <u>2,625,106</u> |

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ (13,711,066)**

See Accompanying Notes to Financial Statements.



CITY OF MIDLAND, TEXAS

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS

September 30, 2018

|   | Business-Type Activities |                 |               |                           |                                      | Total          | Governmental           |
|---|--------------------------|-----------------|---------------|---------------------------|--------------------------------------|----------------|------------------------|
|   | Airport                  | Water and Sewer | Sanitation    | Scharbauer Sports Complex | Nonmajor Enterprise Fund Golf Course |                | Internal Service Funds |
| <b>CURRENT ASSETS</b>                                     |                          |                 |               |                           |                                      |                |                        |
| Cash and cash equivalents                                 | \$ 14,305,287            | \$ 40,737,803   | \$ 16,579,193 | \$ 30,453,611             | \$ 495,144                           | \$ 102,571,038 | \$ 22,603,055          |
| Investments   | 6,373,884                | 13,827,949      | 7,925,868     | 2,302,182                 | 211,572                              | 30,641,455     | 10,623,667             |
| Accounts receivable (net of allowance for uncollectibles) | 1,028,161                | 13,944,630      | 350,362       | 60,460                    | 41,187                               | 15,424,800     | 180,844                |
| Interest receivable                                       | 18,340                   | 38,682          | 20,612        | 6,153                     | 558                                  | 84,345         | 27,389                 |
| Inventories   | -                        | -               | -             | -                         | 189,282                              | 189,282        | 629,591                |
| Prepaid items and other assets                            | -                        | 23,237          | -             | -                         | -                                    | 23,237         | 69,798                 |
| Restricted assets   |                          |                 |               |                           |                                      |                |                        |
| Passenger facility charge                                 |                          |                 |               |                           |                                      |                |                        |
| Cash and cash equivalents                                 | 7,639,756                | -               | -             | -                         | -                                    | 7,639,756      | -                      |
| Accounts receivable                                       | 314,445                  | -               | -             | -                         | -                                    | 314,445        | -                      |
| Customer deposits   |                          |                 |               |                           |                                      |                |                        |
| Cash and cash equivalents                                 | -                        | 2,330,299       | -             | -                         | -                                    | 2,330,299      | -                      |
| Investments   | -                        | 1,294,752       | -             | -                         | -                                    | 1,294,752      | -                      |
| Bond construction fund                                    |                          |                 |               |                           |                                      |                |                        |
| Cash and cash equivalents                                 | -                        | 421,053         | -             | -                         | -                                    | 421,053        | -                      |
| Investments   | -                        | 68,560          | -             | -                         | -                                    | 68,560         | -                      |
| Bond debt service   |                          |                 |               |                           |                                      |                |                        |
| Cash and cash equivalents                                 | -                        | 44,996          | -             | -                         | 28,630                               | 73,626         | -                      |
| Investments   | -                        | 51,543          | -             | -                         | 17,184                               | 68,727         | -                      |
| Total current assets                                      | 29,679,873               | 72,783,504      | 24,876,035    | 32,822,406                | 983,557                              | 161,145,375    | 34,134,344             |
| <b>NONCURRENT ASSETS</b>                                  |                          |                 |               |                           |                                      |                |                        |
| Capital assets  |                          |                 |               |                           |                                      |                |                        |
| Land  | 1,571,906                | 12,679,508      | -             | 227,240                   | -                                    | 14,478,654     | -                      |
| Buildings   | 51,646,189               | 1,825,939       | 8,874,446     | 2,588,898                 | 448,875                              | 65,384,347     | 1,205,930              |
| Improvements other than buildings                         | 8,560,138                | 19,834,976      | 17,395,395    | 51,256,902                | 6,616,317                            | 103,663,728    | 995,570                |
| Infrastructure  | 100,637,238              | 485,624,645     | -             | -                         | -                                    | 586,261,883    | -                      |
| Machinery and equipment                                   | 5,461,046                | 4,375,967       | 566,524       | 2,586,551                 | -                                    | 12,990,088     | 57,555,173             |
| Intangible and other                                      | 1,867,836                | 2,998,800       | 98,002        | -                         | 16,371                               | 4,981,009      | 248,108                |
| Construction in progress                                  | 6,821,063                | 7,753,468       | -             | -                         | -                                    | 14,574,531     | 744,397                |
| Less Accumulated depreciation                             | (100,237,650)            | (148,363,650)   | (14,423,695)  | (28,681,648)              | (4,462,576)                          | (296,169,219)  | (39,002,025)           |
| Net capital assets  | 76,327,766               | 386,729,653     | 12,510,672    | 27,977,943                | 2,618,987                            | 506,165,021    | 21,747,153             |
| Notes receivable  | -                        | 502,629         | -             | -                         | -                                    | 502,629        | -                      |
| Total noncurrent assets                                   | 76,327,766               | 387,232,282     | 12,510,672    | 27,977,943                | 2,618,987                            | 506,667,650    | 21,747,153             |
| Total assets  | 106,007,639              | 460,015,786     | 37,386,707    | 60,800,349                | 3,602,544                            | 667,813,025    | 55,881,497             |