



	Business-Type Activities					Governmental	
	Airport	Water and Sewer	Sanitation	Scharbauer Sports Complex	Nonmajor Enterprise Fund Golf Course	Internal Service Funds	
DEFERRED OUTFLOWS OF RESOURCES							
Pension items	\$ 197,711	\$ 544,207	\$ 346,948	\$ -	\$ 74,957	\$ 1,163,823	\$ 191,863
OPEB items	27,236	76,278	52,061	-	11,928	167,503	27,935
Total deferred outflows of resources	224,947	620,485	399,009	-	86,885	1,331,326	219,798
Total assets and deferred outflows of resources	106,232,586	460,636,271	37,785,716	60,800,349	3,689,429	669,144,351	56,101,295
CURRENT LIABILITIES							
Accounts payable	1,065,687	7,519,052	254,030	26,910	68,992	8,934,671	1,185,889
Accrued payroll	124,164	354,002	252,093	-	55,347	785,606	130,696
Retainage payable	-	203,548	-	-	-	203,548	-
Customer deposits	-	3,625,051	-	-	-	3,625,051	-
General obligation bonds payable from unrestricted assets	-	484,687	-	-	15,431	500,118	-
Compensated absences	116,849	194,811	91,924	-	46,895	450,479	82,319
Total OPEB liability	21,204	61,574	41,686	-	9,579	134,043	22,117
Estimated unpaid claims	-	-	-	-	-	-	1,597,283
Unearned revenue	-	-	164,934	-	157,345	322,279	-
Other liabilities	38,744	698,886	15,415	-	50,411	803,456	8,835
Current liabilities payable from restricted assets							
Accounts payable	1,700	-	-	-	-	1,700	-
Retainage	195,909	-	-	-	-	195,909	-
Accrued interest payable	-	263,446	-	-	6,389	269,835	-
Certificates of obligation payable	-	1,330,000	-	-	67,586	1,397,586	-
Total current liabilities	1,564,257	14,735,057	820,082	26,910	477,975	17,624,281	3,027,139
NONCURRENT LIABILITIES							
Estimated unpaid claims	-	-	-	-	-	-	2,488,659
General obligation bonds payable	-	3,391,875	-	-	124,086	3,515,961	-
Certificates of obligation payable	-	45,690,000	-	-	1,534,827	47,224,827	-
Capital lease obligations payable	-	235,484,581	-	-	-	235,484,581	-
Net pension liability	971,567	2,502,278	1,539,519	-	298,126	5,311,490	934,231
Compensated absences	51,144	85,267	40,234	-	20,526	197,171	36,031
Total OPEB liability	776,721	2,202,776	1,511,609	-	347,003	4,838,109	805,287
Landfill closure/postclosure care	-	-	17,364,580	-	-	17,364,580	-
Total noncurrent liabilities	1,799,432	289,356,777	20,455,942	-	2,324,568	313,936,719	4,264,208
Total liabilities	3,363,689	304,091,834	21,276,024	26,910	2,802,543	331,561,000	7,291,347

(This statement is continued on the following page.)



CITY OF MIDLAND, TEXAS

STATEMENT OF NET POSITION (Continued)
 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
DEFERRED INFLOWS OF RESOURCES							
Pension items	\$ 333,696	\$ 711,017	\$ 520,820	\$ -	\$ 132,765	\$ 1,698,298	\$ 315,274
OPEB items	1,387	3,982	2,744	-	631	8,744	1,452
Total deferred inflows of resources	335,083	714,999	523,564	-	133,396	1,707,042	316,726
Total liabilities and deferred inflows of resources	3,698,772	304,806,833	21,799,588	26,910	2,935,939	333,268,042	7,608,073
NET POSITION							
Net investment in capital assets	76,131,857	100,634,575	12,510,672	27,977,943	877,057	218,132,104	21,747,153
Restricted for passenger facility improvements	7,759,012	-	-	-	-	7,759,012	-
Restricted for debt service	-	96,539	-	-	45,814	142,353	-
Unrestricted (deficit)	18,642,945	55,098,324	3,475,456	32,795,496	(169,381)	109,842,840	26,746,069
TOTAL NET POSITION	\$ 102,533,814	\$ 155,829,438	\$ 15,986,128	\$ 60,773,439	\$ 753,490	335,876,309	\$ 48,493,222
Reconciliation to government-wide statement of net position							
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds						8,877,436	
NET POSITION OF BUSINESS-TYPE ACTIVITIES						<u>\$ 344,753,745</u>	

See Accompanying Notes to Financial Statements.



CITY OF MIDLAND, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Business-Type Activities					Total	Governmental
	Airport	Water and Sewer	Sanitation	Scharbauer Sports Complex	Nonmajor Enterprise Fund Golf Course		Internal Service Funds
OPERATING REVENUES							
International airport parking revenues	\$ 4,301,281	\$ -	\$ -	\$ -	\$ -	\$ 4,301,281	\$ -
International airport building rentals	5,214,775	-	-	-	-	5,214,775	-
International airport aviation rentals	260,438	-	-	-	-	260,438	-
International airport landing fees	497,198	-	-	-	-	497,198	-
International airport fuel and oil commissions	117,262	-	-	-	-	117,262	-
Airpark rentals	139,871	-	-	-	-	139,871	-
Airpark fuel and oil commissions	23,504	-	-	-	-	23,504	-
Water sales	-	59,928,993	-	-	-	59,928,993	-
Sewer charges	-	15,418,041	-	-	-	15,418,041	-
Tap installations and service charges	-	361,614	-	-	-	361,614	-
Garbage collection fees	-	-	18,429,706	-	-	18,429,706	-
Penalties	-	267,710	110,916	-	-	378,626	-
Course usage fees	-	-	-	-	956,916	956,916	-
Golf cart fees	-	-	-	-	561,303	561,303	-
Pro shop rentals	-	-	-	-	29,077	29,077	-
Pro shop sales	-	-	-	-	810,763	810,763	-
Snack bar concession rentals	-	-	-	-	76,107	76,107	-
Football-soccer stadium	-	-	-	455,380	-	455,380	-
Baseball stadium	-	-	-	412,235	-	412,235	-
Common areas	-	-	-	105,611	-	105,611	-
Billings to other funds	-	-	-	-	-	-	14,519,148
Motor vehicle repair billings	-	-	-	-	-	-	5,953,529
Motor vehicle lease charges	-	-	-	-	-	-	7,436,544
Equipment lease - other	-	-	-	-	-	-	130,895
Charges for fuel	-	-	-	-	-	-	2,380,492
Employee payments	-	-	-	-	-	-	3,291,594
Miscellaneous	-	54,053	-	-	1,528	55,581	-
Total operating revenues	10,554,329	76,030,411	18,540,622	973,226	2,435,694	108,534,282	33,712,202



	Business-Type Activities					Governmental Activities	
	Airport	Water and Sewer	Sanitation	Scharbauer	Nonmajor	Total	Internal
				Sports Complex	Enterprise Fund Golf Course		Service Funds
OPERATING EXPENSES EXCLUDING DEPRECIATION							
Cost of goods sold	\$ -	\$ -	\$ -	\$ -	\$ 559,977	\$ 559,977	\$ 1,517,746
Salaries and fringe benefits	2,406,309	6,902,055	4,753,864	-	1,092,960	15,155,188	2,517,930
Contractual services	3,021,706	25,732,371	7,409,310	774,399	521,781	37,459,567	5,045,169
Maintenance of structure	89,032	3,389,521	28,797	788,541	99,030	4,394,921	181,760
Maintenance of equipment	366,450	2,143,435	24,429	25,319	10,077	2,569,710	2,779,829
Payment of claims	-	-	-	-	-	-	7,532,005
Franchise fees	-	4,323,055	628,235	-	-	4,951,290	-
Closure and postclosure care	-	-	1,611,936	-	-	1,611,936	-
Supplies	139,518	4,103,351	402,224	31,527	134,860	4,811,480	3,509,761
Other expenses	142,696	329,108	182,032	97,992	5,859	757,687	-
Total operating expenses	6,165,711	46,922,896	15,040,827	1,717,778	2,424,544	72,271,756	23,084,200
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	4,388,618	29,107,515	3,499,795	(744,552)	11,150	36,262,526	10,628,002
Depreciation	5,559,750	13,705,166	374,889	2,123,290	304,268	22,067,363	4,455,711
OPERATING INCOME (LOSS)	(1,171,132)	15,402,349	3,124,906	(2,867,842)	(293,118)	14,195,163	6,172,291
NON-OPERATING REVENUES (EXPENSES)							
Investment income							
Interest income	334,724	765,327	362,737	638,153	9,753	2,110,694	516,289
Net decrease in the fair value of investments	(79,332)	(195,589)	(98,769)	(28,657)	(2,849)	(405,196)	(131,623)
Interest expense	-	(17,144,800)	-	-	(63,066)	(17,207,866)	-
Rentals	-	98,094	-	-	-	98,094	-
Water royalties	58,406	-	-	-	-	58,406	-
Gain (loss) on sale of capital assets	-	-	2,893	-	-	2,893	45,500
Passenger facility charge revenues	2,259,621	-	-	-	-	2,259,621	-
Player facility charge revenues	-	-	-	-	197,792	197,792	-
Recoveries of damages to city property, net other	-	-	-	-	-	-	90,310
Other, net	7,570,965	3,730,408	35,365	12,600	-	11,349,338	(8,548)
Total non-operating revenues (expenses)	10,144,384	(12,746,560)	302,226	622,096	141,630	(1,536,224)	511,928

(This statement is continued on the following page.)



CITY OF MIDLAND, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)
 PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Business-Type Activities					Total	Governmental
	Airport	Water and Sewer	Sanitation	Scharbauer Sports Complex	Nonmajor Enterprise Fund Golf Course		Internal Service Funds
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	\$ 8,973,252	\$ 2,655,789	\$ 3,427,132	\$ (2,245,746)	\$ (151,488)	\$ 12,658,939	\$ 6,684,219
TRANSFERS							
Transfers (out)	(2,014,148)	(2,239,669)	(632,500)	(712,572)	(164,016)	(5,762,905)	(1,517,212)
Transfers in	-	-	-	31,268,516	1,536,709	32,805,225	-
Total transfers	(2,014,148)	(2,239,669)	(632,500)	30,555,944	1,372,693	27,042,320	(1,517,212)
CAPITAL CONTRIBUTIONS	3,875,224	1,727,411	-	-	-	5,602,635	-
CHANGE IN NET POSITION	10,834,328	2,143,531	2,794,632	28,310,198	1,221,205	45,303,894	5,167,007
NET POSITION (DEFICIT), OCTOBER 1	91,635,756	153,536,394	13,375,984	32,463,241	(394,617)	290,616,758	43,250,995
Change in accounting principle	63,730	149,513	(184,488)	-	(73,098)	(44,343)	75,220
NET POSITION (DEFICIT), OCTOBER 1, RESTATED	91,699,486	153,685,907	13,191,496	32,463,241	(467,715)	290,572,415	43,326,215
NET POSITION, SEPTEMBER 30	<u>\$ 102,533,814</u>	<u>\$ 155,829,438</u>	<u>\$ 15,986,128</u>	<u>\$ 60,773,439</u>	<u>\$ 753,490</u>	<u>\$ 335,876,309</u>	<u>\$ 48,493,222</u>
Reconciliation to government-wide statement of net position							
Change in net position enterprise funds						\$ 45,303,894	
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds						2,541,902	
CHANGE IN NET POSITION OF BUSINESS-TYPE ACTIVITIES						<u>\$ 47,845,796</u>	

See Accompanying Notes to Financial Statements.



CITY OF MIDLAND, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Business-Type Activities					Governmental	
	Airport	Water and Sewer	Sanitation	Scharbauer Sports Complex	Nonmajor Enterprise Fund Golf Course	Internal Service Funds	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	\$ 10,570,913	\$ 74,098,850	\$ 18,250,042	\$ 943,550	\$ 2,466,361	\$ 106,329,716	\$ -
Receipts from interfund service transactions	58,406	-	-	-	-	58,406	30,494,663
Receipts from miscellaneous revenues	7,629,371	3,828,502	35,365	12,600	-	11,505,838	-
Receipts from employees	-	-	-	-	-	-	3,291,594
Payments to suppliers	(2,704,340)	(36,374,279)	(3,093,437)	(1,741,621)	(964,312)	(44,877,989)	(19,405,040)
Payments to employees	(2,345,305)	(6,657,814)	(2,923,269)	-	(1,081,225)	(13,007,613)	(2,433,424)
Payments for interfund service transactions	(711,690)	(3,194,159)	(7,054,412)	(19,983)	(343,682)	(11,323,926)	(667,172)
Net cash from (used in) operating activities	12,497,355	31,701,100	5,214,289	(805,454)	77,142	48,684,432	11,280,621
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers (out)	(2,014,148)	(2,239,669)	(632,500)	(712,572)	(164,016)	(5,762,905)	(1,517,212)
Transfers in	-	-	-	31,268,516	1,536,709	32,805,225	-
Repayment of advances from other funds	-	-	-	-	(736,031)	(736,031)	-
Net cash from (used in) noncapital financing activities	(2,014,148)	(2,239,669)	(632,500)	30,555,944	636,662	26,306,289	(1,517,212)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Capital contributions	3,875,224	-	-	-	-	3,875,224	-
Capital assets purchased	(5,553,567)	(6,724,238)	-	(11,280)	-	(12,289,085)	(3,041,972)
Principal paid on capital debt and notes payable	-	(3,980,000)	-	-	(114,332)	(4,094,332)	-
Interest and fees paid on capital debt and notes payable	-	(14,938,246)	-	-	(79,344)	(15,017,590)	-
Repayment of loans from (to) other funds	-	-	-	-	(841,568)	(841,568)	891,072
Repayment of note receivable	-	13,228	-	-	-	13,228	-
Proceeds from the sale of capital assets	-	-	2,893	-	-	2,893	-
Passenger facility charge revenue	2,259,621	-	-	-	-	2,259,621	-
Player Facility Charge	-	-	-	-	197,792	197,792	-
Insurance proceeds	-	-	-	-	-	-	90,310
Net cash from (used in) capital and related financing activities	581,278	(25,629,256)	2,893	(11,280)	(837,452)	(25,893,817)	(2,060,590)



	Business-Type Activities					Governmental	
	Airport	Water and Sewer	Sanitation	Scharbauer	Nonmajor	Internal Service Funds	
				Sports Complex	Enterprise Fund Golf Course		Total
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of investments	\$ (5,762,591)	\$ (1,893,299)	\$ (2,667,544)	\$ (1,687,840)	\$ (28,414)	\$ (12,039,688)	\$ (5,512,523)
Proceeds from sales and maturities of investments	185,269	5,151,614	1,593,590	186,183	118,781	7,235,437	1,141,643
Interest received	243,425	576,727	260,121	605,532	7,125	1,692,930	372,487
Net cash from (used in) investing activities	(5,333,897)	3,835,042	(813,833)	(896,125)	97,492	(3,111,321)	(3,998,393)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,730,588	7,667,217	3,770,849	28,843,085	(26,156)	45,985,583	3,704,426
CASH AND CASH EQUIVALENTS, OCTOBER 1	16,214,455	35,866,934	12,808,344	1,610,526	549,930	67,050,189	18,898,629
CASH AND CASH EQUIVALENTS, SEPTEMBER 30	\$ 21,945,043	\$ 43,534,151	\$ 16,579,193	\$ 30,453,611	\$ 523,774	\$ 113,035,772	\$ 22,603,055
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES							
Operating income (loss)	\$ (1,171,132)	\$ 15,402,349	\$ 3,124,906	\$ (2,867,842)	\$ (293,118)	\$ 14,195,163	\$ 6,172,291
Adjustments to reconcile operating income (loss) to net cash from operating activities							
Depreciation	5,559,750	13,705,166	374,889	2,123,290	304,268	22,067,363	4,455,711
Other income (expense)	7,629,371	3,828,502	35,365	12,600	-	11,505,838	(8,548)
(Increase) decrease in							
Receivables	74,990	(1,953,403)	(299,217)	(29,676)	(15,619)	(2,222,925)	82,603
Inventories	-	-	-	-	15,259	15,259	49,595
Prepaid items and other assets	-	540,476	7,093	-	-	547,569	33,661
Pension deferred outflow of resources	465,954	1,379,622	859,278	-	178,652	2,883,506	456,343
OPEB deferred outflow of resources	(27,236)	(76,278)	(52,061)	-	(11,928)	(167,503)	(27,935)
Increase (decrease) in							
Accounts payable	251,082	(713,217)	132,021	(43,826)	1,707	(372,233)	319,350
Accrued payroll	(8,027)	4,075	42,390	-	(1,238)	37,200	2,300
Retainage payable	63,755	182,095	-	-	-	245,850	-
Customer deposits	-	21,842	-	-	-	21,842	-
Estimated unpaid claims	-	-	-	-	-	-	93,319
Unearned revenue	-	-	8,637	-	46,286	54,923	-
Pension deferred inflow of resources	273,719	538,515	410,237	-	108,835	1,331,306	255,549
OPEB deferred inflow of resources	-	3,982	2,744	-	631	7,357	1,452
Compensated absences	(6,527)	31,604	26,664	-	(19,389)	32,352	5,634
Net pension liability	(713,946)	(1,854,902)	(1,227,664)	-	(278,010)	(4,074,522)	(688,425)
Total other postemployment benefit liability	77,067	217,623	149,003	-	34,182	477,875	79,588
Closure/postclosure cost liabilities	-	-	1,611,936	-	-	1,611,936	-
Other liabilities	28,535	443,049	8,068	-	6,624	486,276	(1,867)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	\$ 12,497,355	\$ 31,701,100	\$ 5,214,289	\$ (805,454)	\$ 77,142	\$ 48,684,432	\$ 11,280,621

(This statement is continued on the following page.)



CITY OF MIDLAND, TEXAS

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (Continued)

For the Year Ended September 30, 2018

	Business-Type Activities					Governmental	
	Airport	Water and Sewer	Sanitation	Scharbauer Sports Complex	Nonmajor Enterprise Fund Golf Course	Internal Service Funds	
NONCASH TRANSACTIONS							
Changes in the fair value of investments	\$ (79,332)	\$ (195,589)	\$ (98,769)	\$ (28,657)	\$ (2,849)	\$ (405,196)	\$ (131,623)
Contributions of capital assets	-	1,727,411	-	-	-	1,727,411	-
Proceeds from issuance of refunding debt paid directly to escrow agent	-	38,289,664	-	-	-	38,289,664	-
Principal and fiscal charges paid on refunding debt	-	(38,289,664)	-	-	-	(38,289,664)	-
TOTAL NONCASH TRANSACTIONS	\$ (79,332)	\$ 1,531,822	\$ (98,769)	\$ (28,657)	\$ (2,849)	\$ 1,322,215	\$ (131,623)

See Accompanying Notes to Financial Statements.



CITY OF MIDLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Midland, Texas (the City) is a municipal corporation incorporated under the laws of the State of Texas (the State) on January 25, 1911. The City operates under a Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

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

A. The Financial Reporting Entity

The financial reporting entity presented in the basic financial statements of the City includes the primary government, the City, and its component units. Component units are legally separate organizations for which the City is financially accountable and organizations which, if excluded, would cause the City's basic financial statements to be misleading or incomplete. GASB Statement No. 14, 39, 61, and 80, establishes the criteria to be considered in determining component units of a primary government.

These criteria are financial accountability, appointment of board members, imposition of will, financial dependency on or benefit to the primary government, dependency, and accuracy and completeness of the reporting entity's financial statements. In the absence of financial accountability, if the organization is a legally separate, tax-exempt entity meeting the following criteria, it should also be discretely presented as a component unit:

1. The resources of the organization are entirely or almost entirely for the direct benefit of the City, its component units, or its constituents.
2. The City, or its component units, is entitled to, or has access to a majority of the resources of the organization.
3. The resources of the organization are significant to the City.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. The Financial Reporting Entity (Continued)

The Midland Development Corporation (MDC) and the Midland Spaceport Development Corporation (Spaceport) are the only component units of the City and are discretely presented.

The MDC is discretely presented because it is a legally separate entity with a majority of its board appointed by the City and the City can impose its will upon the MDC. Additionally, the City Council and the MDC boards are not substantively the same and the MDC does not provide services entirely or almost entirely to the City. Furthermore, the City is not obligated for MDC debt and the City is not a sole corporate member.

The MDC is a legally separate nonprofit corporation organized under the Texas Development Corporation Act of 1979, Article 5190.6 Vernon's Texas Revised Civil Statutes, annotated as amended and governed by Section 4A of the Act. The purposes of the MDC include, but are not limited to, keeping existing jobs and businesses in the City, expansion of current and attraction of new business to the City, providing long-term employment opportunities, and other such purposes as delineated in Article 4 of the Articles of Incorporation of the MDC.

The Midland Spaceport Development Corporation (the Spaceport) is discretely presented because it is a legally separate entity with a majority of its board appointed by the City and the City can impose its will upon it. Additionally, the City Council and the Spaceport boards are not substantively the same and the Spaceport does not provide services entirely or almost entirely to the City. Furthermore, the City is not obligated for the Spaceport's debt and the City is not a sole corporate member.

The Spaceport is a legally separate nonprofit corporation organized to exercise the powers and duties granted to a spaceport development corporation under Chapter 507, Texas Local Government Code, and for the transaction of any and all lawful acts for which nonprofit corporations may be incorporated under of the Texas Nonprofit Corporation Act. The purpose of Spaceport is to support the creation and development of a spaceport project in Midland, Texas, and for any lawful purpose permitted by the Nonprofit Law of the State of Texas; and exclusively for charitable, religious, scientific, literary, or scientific purposes either directly or by contributions to organizations that qualify as exempt under section 501(c)(3) of the Internal Revenue Code and its Regulations as they now exist or as they may hereinafter be amended.

Complete audited financial statements of the MDC and Spaceport may be examined at City of Midland, City Hall, 300 North Loraine, Midland, Texas.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Joint Venture

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City participates in the following joint venture:

The Midland-Odessa Urban Transit District (MOUSD) was established through an interlocal agreement between the City and the City of Odessa on August 28, 2001 to provide mass transit to both cities. The MOUSD is to be exclusively governed by both City Councils or through an equally appointed board. At September 30, 2018, the Transit Board (the Board) is the official governing agency of EZ-Rider. It is comprised of six individuals from both cities, appointed by their respective City Councils. The Board approves the budget, routes, fares, schedules, policies and procedures, new services, etc. Further information concerning MOUSD may be found in Note 18 of this financial report.

C. Government-Wide and Fund Financial Statements

As previously discussed, the basic financial statements of the City are presented at two basic levels, the government-wide level and the fund level. These statements focus on the City as a whole at the government-wide level and on major funds at the fund level. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities for the financial reporting entity of the City.

Although the effect of indirect interfund activity has been removed from these statements, interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the City is reported separately from certain legally separate component units that meet the criteria for discrete presentation as set forth in GASB Statements No. 14, 39, 61, and 80. The government-wide statement of net position reports all financial and capital resources of the City and is presented in an "assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position" format. Assets and liabilities are presented in relative order of liquidity with liabilities that have an average maturity of more than one year separated into the amount due within one year and the amount due in more than one year.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-Wide and Fund Financial Statements (Continued)

The government-wide statement of activities identifies the relative financial burden of each of the City's functions (Development Services, Community Service, Fire, Police, etc.) or segments (Water and Sewer, Sanitation, Golf Course, Airport, etc.) on the taxpayers by identifying direct expenses and the extent of self-support through program revenues. Direct expenses are clearly identifiable expenses that can be specifically associated with a function or segment. Program revenues are revenues derived directly from the function or segment, or from other sources that reduce the net cost of the function to be financed from general government revenues.

Program revenues are (1) charges to customers who purchase, use, or directly benefit from services provided by a function or segment and which are generated by that function, (2) grants and contributions restricted to operating requirements of a function or segment, and (3) grants and contributions restricted to capital requirements of a function or segment. Items such as taxes, investment earnings and nonspecific grants are not included as program revenues but are instead reported as general revenues, which normally cover the net cost of a function or segment.

Internal service funds report activities that provide goods or services to the financial reporting entity on a cost-reimbursement basis. Any net profit or loss from these activities is allocated back to the function or segment that benefited from the goods or services provided based upon their proportionate benefit, to the extent possible. The effect of internal service fund activities in the government-wide statements is eliminated, as necessary, to avoid the effect of "doubling up" internal service fund activity. Any residual assets of internal service funds, except the Warehouse Fund, are reported with governmental activities at the entity-wide level. Residual assets of the Warehouse Fund are reported with business-type activities at the entity-wide level because the Warehouse Fund provides support predominantly to the enterprise funds.

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



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-Wide and Fund Financial Statements (Continued)

Internal Service Funds, which traditionally provide services primarily to other funds of the government, are presented in summary form as part of the proprietary fund financial statements.

D. Measurement Focus and Basis of Accounting

The government-wide statements and proprietary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements, including time requirements, have been met. Capital assets are reported at historical cost and depreciated, except for inexhaustible assets such as land, in accordance with the City's depreciation policy.

Governmental fund financial statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In the case of property and sales taxes, available means due within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days.

Expenditures are generally recorded when a liability is incurred. However, expenditures related to general long-term debt, compensated absences, and claims and judgments are recorded only when payment is due.

Governmental fund level revenues that have been accrued based upon the susceptible to accrual concept are:

General Fund – interest, ad valorem taxes, sales taxes, ambulance fees, assessments and federal and state grant proceeds, except where such grants are expenditure driven and other requirements related to the grant have not been met.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Special Revenue Funds – interest, ad valorem taxes, occupancy taxes and federal and state grant proceeds, except where such grants are expenditure driven and other requirements related to the grant have not been met.

Debt Service Fund - ad valorem taxes and interest.

Capital Projects Fund - interest.

Proprietary fund activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. This measurement focus includes all assets and liabilities on the statement of net position. Operating statements using this focus present a total net position view of increases (revenues) and decreases (expenses) in the fund.

Proprietary fund operating statements distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses generally are the result of providing or delivering goods or services in association with the fund's principal ongoing operations.

The principal operating revenues of the City's Airport, Water and Sewer, Sanitation, Scharbauer Sports Complex, and Golf Funds are charges of this type. Operating expenses include the costs of administration, sales, services, and depreciation.

Transactions resulting in non-operating revenues and expenses are normally created by such items as cash flows from capital and related financing activities, noncapital financing activities, investing activities, and include revenues such as the Passenger Facility Charges (PFC) reported in the Airport Fund. It is the City's general policy to first use restricted assets, such as the PFC revenues, for costs that meet the resource restrictions and then unrestricted assets as needed.

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and other government units, on a cost-reimbursement basis. These activities include, but are not limited to, warehouse, garage, technology, and self-insurance services for workers' compensation, medical/dental and general liability, and unemployment benefits.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

The following funds are used by the City:

1. Governmental Funds - Major Funds

- a. General Fund - The principal operating unit of the City, this fund accounts for the primary activities of the City, such as police protection, fire protection, public works, maintenance of parks, and general administration, which are not accounted for and reported in any other fund.
- b. Debt Service Fund - This fund is used to account for and report financial resources that are restricted to expenditure for principal and interest. Although this fund did not qualify as a major fund for the current year, the City has designated it to be reported as such.

2. Governmental Funds - Nonmajor Funds

- a. Other Governmental Funds - This is a summarization of all of the nonmajor governmental funds. Included are the following funds:
 1. Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
 2. Capital Projects Funds - These funds account for and report financial resources that are restricted, committed, or assigned to be used for the acquisition or construction of capital facilities and other capital assets other than those financed by business-type activities.

3. Proprietary Funds

- a. Water and Sewer Fund - This fund is used to account for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system, and billing and collection for water and sewer services. The fund is also used to accumulate resources for certain capital projects and to meet the requirements of bond indentures, obligations for capital leases, and other long-term obligations of the system. Charges to customers, based upon rates that are reviewed on a regular basis, and investment income provide the revenue stream to finance these costs.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

3. Proprietary Funds (Continued)

- b. Airport Fund - This fund is used to account for the operation and maintenance of the airfield, terminal building, parking facilities, general aviation airport, and industrial park. The fund is also used to accumulate resources for certain capital projects and to meet the long-term obligations of the airport. Charges to customers provide the revenue stream to finance operating costs, some capital projects costs, and other long-term obligations of the airport. The Passenger Facility Charge, which is non-operating revenue, is used to supplement charges to customers in supporting the requirements of bond indentures and certain capital projects.
- c. Scharbauer Sports Complex Fund - This fund is used to account for the operation and maintenance of the sports complex and accumulate resources for capital projects. Operations and maintenance costs are financed through user charges. Although this fund did not qualify as a major fund for the current year, the City has designated it to be reported as such.
- d. Sanitation Fund - This fund is used to account for the collection of refuse, delivery of refuse to the landfill and landfill operations. The fund is also used to accumulate resources for certain capital projects and to meet long-term obligations of the system. Charges to customers, based upon rates that are reviewed on a regular basis, and investment income provide the revenue stream to finance these costs.
- e. Golf Course Fund - This fund does not meet the criteria for inclusion as a major fund. However, this is the only remaining proprietary fund of the City and as such is presented in a separate column. This fund is used to account for the operation and maintenance of the golf course and pro shop, accumulate resources for capital projects, and meet the requirements of long-term obligations of the fund. All costs are financed through user charges.

4. Other Fund Types

Internal Service Funds - account for fleet management services, provision of goods through a warehouse, a garage, technology equipment and services, and self-insurance activities in the areas of workers' compensation, health and general liability, and unemployment benefits to the financial reporting entity on a cost-reimbursement basis.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include any cash on hand, demand deposits, and any highly liquid investments that have an original maturity of three months or less from date of purchase. Investments in TexPool and TexStar are considered cash equivalents as the amounts are available on demand.

Investments, other than investments in pools as previously referenced, are recorded at fair value based upon verifiable market prices.

F. Inventories and Prepaid Items

Inventories are valued at average cost. Inventories for all funds consist of expendable supplies and are recorded as expenditures or expenses, as appropriate, when consumed rather than when purchased.

The City makes certain payments to vendors in the current year for expenses/expenditures applicable to future accounting periods. A reserve for inventories and prepayments in governmental funds is recognized at the fund level to indicate that a portion of the fund balance is not appropriable for expenditure. Prepaid items are recorded as expenditures or expenses when consumed.

G. Receivables, Payables, and Interfund Transactions

Short-term loans between funds are reported as interfund receivables in the fund making the loan and as interfund payables in the fund receiving the loan. Arms-length transactions between funds for goods and services are reported as revenues in the selling fund and as expenses/expenditures in the acquiring fund. Any unpaid amounts are appropriately recorded as interfund receivables/payables when liquidation is expected within one year. If anticipated repayment is longer than one year, amounts are classified as advances to/from other funds. Flows of assets from one fund to another with no requirement for repayment or without an equivalent flow of assets in return are accounted for as transfers.

H. Capital Assets

Capital assets include the purchase, other acquisition, or construction, of equipment, facilities, or other similar assets at a cost in excess of \$5,000 and for which a useful life of over one year is expected. These assets include property, plant, equipment, infrastructure, and all other tangible and intangible assets purchased or acquired. Purchased or constructed assets are carried at historical cost or estimated historical cost. Infrastructure assets, which include streets and associated drainage, sidewalks,



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

bridges, drainage systems, water and sewer systems, runways and taxiways, lighting systems, and other similar type assets, have been recorded at historical cost for all assets acquired after April 1986. Infrastructure assets acquired prior to April 1986 and after June 1980 were capitalized based upon estimated historical cost obtained from bond documents used to obtain financing for construction of infrastructure assets. Donated capital assets are recorded at acquisition value at the date of donation. Intangible assets are reported in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

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

Asset Class	Years
Buildings	10-40
Infrastructure	20-50
Improvements other than buildings	2-50
Machinery and equipment	4-30
Intangible and other	3-15

I. Compensated Absences

The City's employees earn vacation, which may either be taken or accumulated, subject to a specified maximum, until paid upon retirement or termination. Unused sick leave is accumulated up to certain limits, which are subject to specific reductions if deposited into a Retiree Reimbursement Account (RRA) upon retirement. The City's employees are allowed to accumulate compensatory time up to a specified maximum.

The City has accrued vacation, sick leave, compensatory time, and related salary payments. This liability has been accrued in the government-wide and proprietary fund statements. Governmental funds report liabilities only for the matured portion of these liabilities.

J. Federal and State Grants

Community Development Block Grants, Federal and State of Texas Equitable Property Sharing proceeds and certain other public safety grants are accounted for within special revenue funds. Other grants and entitlements received for purposes normally financed through the general government are accounted for within the General Fund. Grant revenues are recognized when the expenditures are incurred and other related requirements are met.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Federal and State Grants (Continued)

Airport Improvement Program (AIP) grants are accounted for within the Airport Fund, which is an enterprise fund. Grant revenues are recognized on an accrual basis.

K. Long-Term Debt

General Obligation Bonds and Certificates of Obligation that have been issued to fund capital projects of the general government that are to be repaid from tax revenues of the City are reported in the government-wide statement of net position.

Certificates of Obligation, which are secured by tax revenues, and Revenue Bonds, which have been issued to fund capital projects of proprietary funds that are to be repaid with funds from proprietary fund assets, are reported in the proprietary funds. Bonds payable are reported net of the associated premium or discount at the government-wide level and in the fund level proprietary fund statements.

The government-wide and proprietary fund level statements defer bond premiums, and discounts and recognize these items over the life of the issue using the effective interest rate method. In the fund level statements, governmental fund types recognize these items in the current period.

Governmental and business-type activities in the government-wide statements and the proprietary funds report the difference between the reacquisition price (new debt) and the net carrying amount of the old debt on refunded debt transactions as a deferred outflow or inflow of resources and recognize it as a component of interest expense in a systematic and rational manner over the shorter of the remaining life of the old debt or the life of the new debt.

L. Retirement Plans

The City has two separate defined benefit retirement plans that cover substantially all employees. The Texas Municipal Retirement System (TMRS) provides benefits for all full-time employees who are not firefighters. The Midland Firemen's Relief and Retirement Fund provides benefits for all full-time firefighters.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by TMRS and the Midland Firemen's Relief and Retirement Fund. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Retirement Plans (Continued)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, and OPEB expense, information about the balances and additions to/deductions from the balances have been determined on the same basis as they are reported by the City and TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

M. Indirect and Centralized Expenses

The City does not allocate indirect expenses among functions. The City charges proprietary type funds for “centralized” expenses, which include an administrative overhead component, provided by the General Fund. These costs are determined on an annual basis through a full cost allocation study, except in the case of the Airport Fund. Airport Fund costs are determined in accordance with 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). However, the City does not charge the full cost determined through the Uniform Guidance study to the Airport Fund. All charges for these “centralized” expenses are treated as transfers in the proprietary funds.

N. Nature and Purpose of Classifications of Fund Equity

Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance. Assigned fund balances are constrained by the intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by City management based on Council direction. Expenditures are to be made from the most restrictive fund balance classification first when more than one classification is available.

O. Implementation of New Accounting Principles

During the fiscal year ended September 30, 2018, the City implemented GASB Statement No. 75. See Note 21 for additional information.



2. DEPOSITS AND INVESTMENTS

Deposits - State statute requires that public funds in the City's depository institution be secured by eligible securities, as defined in V.T.C.A., Local Government Code Chapter 2257, in an amount not less than the amount on deposit plus any accrued interest less any amount provided for by insurance of the United States or an instrumentality thereof.

The City's depository agreement further restricts acceptable collateral, 65% secured by direct obligations of the United States and 35% meeting the requirements of Chapter 2257, and the level of collateral to 102% of the City's funds on deposit or the amount of the City's funds on deposit plus \$1,000,000, whichever is greater. The City's deposits were fully insured or collateralized as of September 30, 2018. At September 30, 2018, the carrying amount of cash for the City, MDC, and the Spaceport was \$3,331,884, \$7,730,276, and \$560,711, respectively. The bank balance of \$13,327,052 was insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000. The remaining bank balance was collateralized by securities, with a fair value of \$20,769,726 at September 30, 2018, held in the City's name by BNY Mellon as agent for the City.

In addition to these bank balances, Wells Fargo Bank serves as custodian for eligible federal treasury and agency securities in the amount of \$72,458,290.

Investments - The City's investment policies are governed by state statutes. The City's investment policies further limit state statutes such that eligible investments include the following:

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



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

2. DEPOSITS AND INVESTMENTS (Continued)

B. Direct Obligations of the State of Texas or Its Agencies

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

C. Certificates of Deposit Issued by State and National Banks Domiciled in this State

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

D. Fully Collateralized Repurchase Agreements Having a Defined Termination Date

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

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

E. Money Market Funds

Investment pools of public or private sponsorship, as provided in the Act and Approved by Council.

Money Market Funds fully authorized by state statute of both public and private sponsorship.

F. Other Securities or Obligations Approved by the City Council

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



2. DEPOSITS AND INVESTMENTS (Continued)

F. Other Securities or Obligations Approved by the City Council (Continued)

Investments of the City, other than for amortized cost pools, are valued based upon quotes obtained from Interactive Data Pricing and Reference Data (IDC). Investments in these pools are valued based upon the value of pool shares. No investments are reported at amortized cost, except for the City's investments in the Texas Local Government Investment Pool. The City invests in two pools; TexStar and the Texas Local Government Investment Pool (TexPool), both of which were created under the Interlocal Cooperation Act, Texas Government Code Ann. ch. 791 and the Texas Government Code Ann. ch. 2256. TexStar is rated AAAM and seeks to maintain a constant net asset value of \$1.00. Investments in the pools are considered to be cash equivalents when preparing these financial statements.

The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is the sole officer, director and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act, Texas Government Code Ann. chapter 2256. TexStar is governed by a five-member Board of Directors comprising three government officials or employees and two other persons with expertise in public finance. Additionally, TexStar has a five-member Advisory Board. Fair value of the City's position in the pools is, in all material respects, the same as the value of the pool shares. Investment income earned on pooled cash and investments is allocated to each fund based upon each fund's weighted-average daily cash and investment balances.

State statutes permit the City to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities or cash of equal value, the City would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. During the year ended September 30, 2018, the City invested in no reverse repurchase agreements.

Credit Risk - In compliance with the City's investment policy, as of September 30, 2018, the City minimized credit risk by limiting investments to the safest types of securities and diversifying the portfolio so that potential losses on individual securities were minimized. The investment pools (which represent approximately 75% of the portfolio) are rated AAAM by Standard and Poor's. The Federal National Mortgage Association, Federal Home Loan Bank notes and Federal Home Loan Mortgage Corporation obligations were all rated AAA by Standard and Poor's.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

2. DEPOSITS AND INVESTMENTS (Continued)

F. Other Securities or Obligations Approved by the City Council (Continued)

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the City's investment policy requires that the portfolio remain sufficiently liquid to enable the City to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements. Liquidity and marketability will be ensured by investing in securities with active secondary markets. Final stated maturities may not exceed ten years with no more than 30% exceeding seven years and dollar weighted average portfolio maturity not to exceed five years in the investments listed above in sections A through F. At September 30, 2018, the weighted-average portfolio maturity was 6.99 years.

The City's investments carried at fair value as of September 30, 2018 are:

Investments	Fair Value			Weighted-Average Maturity (in years)	Credit Risk
	Primary Government	Component Units	Total		
FHLB	\$ 14,000,685	\$ -	\$ 14,000,685	6.41	AAA
FNMA	34,619,445	-	34,619,445	1.03	AAA
FHLMC	23,838,160	-	23,838,160	3.01	AAA
Subtotal investments - fair value	72,458,290	-	72,458,290		
Pools	264,303,558	17,689,829	281,993,387	0.08	AAAm
TOTAL	\$ 336,761,848	\$ 17,689,829	\$ 354,451,677	6.99	

Concentration of Credit Risk - The City's investment policy states that the portfolio(s) shall be diversified by type of investment and maturities to reduce risks resulting from undue investment concentration. At September 30, 2018, more than 5% of the City's investments are in Federal National Mortgage Association (9.77%), and Federal Home Loan Mortgage Corporation (6.73%). Investments in investment pools as of September 30, 2018, consisted of TexPool and TexStar in the amounts of \$71,439,916 and \$210,553,471, respectively.



2. DEPOSITS AND INVESTMENTS (Continued)

G. Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or quoted prices in markets that are not active; and Level 3 inputs are unobservable inputs supported by little or no market activity and are significant to the fair value of the assets. It is preferable that fair value measurements maximize the use of observable inputs and minimize the use of unobservable inputs.

As of September 30, 2018, the City has the recurring fair value measurements for U.S. agency securities of \$72,458,290 valued using quoted prices for similar assets (Level 2 inputs). TexStar investments are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. TexStar balances of \$210,553,471 approximate net asset value for the applicable external investment pool balances. Additionally, the City has investments in TexPool of \$71,439,916, which are recorded at amortized cost.

3. PROPERTY TAXES

Property taxes for the current fiscal year are levied on October 1; attach as an enforceable lien on property as of January 1; and become delinquent at January 31, unless the half-payment option is elected by the taxpayer, in which case one-half of the tax is due November 30, and the balance due the following June 30. On February 1, delinquent taxes are assessed a 6% penalty plus 1% interest. Penalty and interest rates each increase 1% per month through June. According to Article V, Section (2) of the City Charter, the maximum tax rate is \$2.00 per \$100.00 assessed valuation, which includes debt service. The combined tax rate of the 2017 tax roll or Fiscal Year 2017-2018 was \$0.408389 per \$100.00 assessed valuation, resulting in a tax levy in the amount of \$50,032,693 on an assessed valuation of \$12,241,760,880. The levy is composed of a maintenance and operations levy of \$0.367501 and an interest and sinking fund (debt service) levy of \$0.040888 per \$100.00 assessed valuation. Property taxes are imposed non-exchange revenues and, as such, require different revenue recognition at the government-wide level and fund level.

In the government-wide statements, property taxes are recorded on an accrual basis with a receivable for any delinquent taxes and the associated revenue recognized at September 30 of each year. At the fund level, property tax revenues are recognized on the modified accrual basis of accounting, meaning collected within the current period or soon enough thereafter, not to exceed 60 days, to be used to pay liabilities of the current period.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

4. RECEIVABLES

Receivables as of September 30, 2018 for the City's individual major and nonmajor funds, and internal service funds in the aggregate, including applicable allowances for uncollectible amounts, are as follows:

	General	Debt Service	Airport	Water and Sewer	Sanitation	Sports Complex	Nonmajor and Other Funds	Total
Receivables								
Property taxes	\$ 913,937	\$ 134,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,048,871
Sales taxed	9,985,986	-	-	-	-	-	-	9,985,986
Accounts	5,608,764	3,465	1,039,407	14,422,340	414,400	60,460	2,624,935	24,173,771
Interest	71,684	1,208	18,340	38,682	20,612	6,153	43,516	200,195
Assessments	509,058	-	-	-	-	-	-	509,058
Intergovernmental	105,407	-	-	-	-	-	607,473	712,880
Gross receivables	17,194,836	139,607	1,057,747	14,461,022	435,012	66,613	3,275,924	36,630,761
Less allowance for uncollectibles	(3,817,311)	(25,042)	(11,246)	(477,710)	(64,038)	-	-	(4,395,347)
NET TOTAL RECEIVABLES	\$ 13,377,525	\$ 114,565	\$ 1,046,501	\$ 13,983,312	\$ 370,974	\$ 66,613	\$ 3,275,924	\$ 32,235,414

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The City also records unearned revenue, revenue received but not yet earned, in its governmental funds. At September 30, 2018, the composition of these revenues was as follows:

	Deferred Inflows Unavailable Revenue	Governmental Unearned Revenue
Delinquent property taxes receivable - General Fund	\$ 556,043	\$ -
Lot clearing receivable - General Fund	284,323	-
Municipal court fines - General Fund	744,261	-
Delinquent property taxes receivable - Debt Service Fund	94,307	-
Street paving liens receivable - General Fund	508,947	-
Grant drawdowns prior to meeting all eligibility requirements	-	47,419
TOTAL DEFERRED/UNEARNED REVENUE FOR GOVERNMENTAL FUNDS	\$ 2,187,881	\$ 47,419



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018 was as follows:

	Beginning Balances	Increases	Decreases/ Adjustments	Ending Balances
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 10,080,079	\$ 203,517	\$ -	\$ 10,283,596
Construction in progress	10,781,830	23,966,193	-	34,748,023
Total capital assets not being depreciated	20,861,909	24,169,710	-	45,031,619
Capital assets being depreciated				
Buildings	54,211,236	146,745	(356,245)	54,001,736
Improvements other than building	30,929,017	185,993	(1,484)	31,113,526
Machinery and equipment	79,231,211	3,221,354	(1,915,536)	80,537,029
Infrastructure	177,750,126	10,103,873	-	187,853,999
Other	5,118,749	663,224	(154,423)	5,627,550
Total capital assets being depreciated	347,240,339	14,321,189	(2,427,688)	359,133,840
Less accumulated depreciation for				
Buildings	(15,601,593)	(1,474,547)	353,578	(16,722,562)
Improvements other than building	(12,815,929)	(1,246,968)	-	(14,062,897)
Machinery and equipment	(47,703,776)	(6,149,116)	1,732,125	(52,120,767)
Infrastructure	(77,567,076)	(7,271,624)	-	(84,838,700)
Other	(4,298,623)	(332,845)	19,030	(4,612,438)
Total accumulated depreciation	(157,986,997)	(16,475,100)	2,104,733	(172,357,364)
Total capital assets being depreciated, net	189,253,342	(2,153,911)	(322,955)	186,776,476
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET				
	\$ 210,115,251	\$ 22,015,799	\$ (322,955)	\$ 231,808,095
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 14,478,655	\$ -	\$ -	\$ 14,478,655
Construction in progress	3,298,300	11,886,935	(610,705)	14,574,530
Total capital assets not being depreciated	17,776,955	11,886,935	(610,705)	29,053,185
Capital assets being depreciated				
Water rights	717,058	-	-	717,058
Buildings	65,027,545	29,360	351,245	65,408,150
Improvements other than building	106,675,487	1,038,560	(3,550,319)	104,163,728
Machinery and equipment	13,069,001	11,282	(90,195)	12,990,088
Infrastructure	584,208,529	2,053,354	-	586,261,883
Other	4,383,920	-	(119,969)	4,263,951
Total capital assets being depreciated	774,081,540	3,132,556	(3,409,238)	773,804,858



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

5. CAPITAL ASSETS (Continued)

	Beginning Balances	Increases	Decreases/ Adjustments	Ending Balances
BUSINESS-TYPE ACTIVITIES (Continued)				
Less accumulated depreciation for				
Water rights	\$ (717,058)	\$ -	\$ -	\$ (717,058)
Buildings	(26,624,718)	(1,006,109)	(851,251)	(28,482,078)
Improvements other than building	(56,187,990)	(4,024,018)	3,550,319	(56,661,689)
Machinery and equipment	(9,646,073)	(607,361)	90,195	(10,163,239)
Infrastructure	(180,612,016)	(16,141,554)	-	(196,753,570)
Other	(3,398,876)	(314,382)	119,969	(3,593,289)
Total accumulated depreciation	<u>(277,186,731)</u>	<u>(22,093,424)</u>	<u>2,909,232</u>	<u>(296,370,923)</u>
 Total capital assets being depreciated, net	 <u>496,894,809</u>	 <u>(18,960,868)</u>	 <u>(500,006)</u>	 <u>477,433,935</u>
 BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 514,671,764</u>	<u>\$ (7,073,933)</u>	<u>\$ (1,110,711)</u>	<u>\$ 506,487,120</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES

General government	
Administration	\$ 14,084
Support services	2,455,816
Engineering	7,307,235
Community services	1,818,882
Police	225,073
Fire	224,360
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of assets	<u>4,429,650</u>

TOTAL DEPRECIATION EXPENSE -
 GOVERNMENTAL ACTIVITIES \$ 16,475,100

BUSINESS-TYPE ACTIVITIES

Airport	\$ 5,559,750
Water and sewer	13,705,166
Sanitation	374,889
Scharbauer sports complex	2,123,290
Nonmajor funds	304,268
Warehouse fund - internal service fund	<u>26,061</u>

TOTAL DEPRECIATION EXPENSE -
 BUSINESS-TYPE ACTIVITIES \$ 22,093,424



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

5. CAPITAL ASSETS (Continued)

Discretely Presented Component Units

Capital asset activity for MDC for the year ended September 30, 2018 was as follows:

	Beginning Balances	Increases	Decreases/ Adjustments	Ending Balances
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 4,424,753	\$ 790,435	\$ (173,487)	\$ 5,041,701
Construction in progress	826,165	509,366	(877,735)	457,796
Total capital assets not being depreciated	5,250,918	1,299,801	(1,051,222)	5,499,497
Capital assets being depreciated				
Buildings	9,412,265	2,560,555	-	11,972,820
Improvements other than building	216,336	500,373	-	716,709
Machinery and equipment	130,880	-	(15,005)	115,875
Infrastructure	484,502	877,735	-	1,362,237
Total capital assets being depreciated	10,243,983	3,938,663	(15,005)	14,167,641
Less accumulated Depreciation for				
Buildings	(357,490)	(379,062)	-	(736,552)
Improvements other than building	(125,295)	(11,859)	-	(137,154)
Machinery and equipment	(11,621)	(11,588)	8,120	(15,089)
Infrastructure	(115,473)	(20,662)	-	(136,135)
Total accumulated depreciation	(609,879)	(423,171)	8,120	(1,024,930)
Total capital assets being depreciated, net	9,634,104	3,515,492	(6,885)	13,142,711
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 14,885,022	\$ 4,815,293	\$ (1,058,107)	\$ 18,642,208

Capital asset activity for Spaceport for the year ended September 30, 2018 was as follows:

	Beginning Balances	Increases	Decreases/ Adjustments	Ending Balances
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Construction in progress	\$ 1,777,525	\$ 660,725	\$ (2,438,250)	\$ -
Total capital assets not being depreciated	1,777,525	660,725	(2,438,250)	-
Capital assets being depreciated				
Infrastructure	-	2,438,250	-	2,438,250
Total capital assets being depreciated	-	2,438,250	-	2,438,250
Less accumulated depreciation for				
Infrastructure	-	(20,319)	-	(20,319)
Total accumulated depreciation	-	(20,319)	-	(20,319)
Total capital assets being depreciated, net	-	2,417,931	-	2,417,931
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 1,777,525	\$ 3,078,656	\$ (2,438,250)	\$ 2,417,931



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. EMPLOYEE BENEFIT PLANS

A summary of the net pension liability, deferred outflows, deferred inflows and pension expense of each plan is shown below. Detailed discussion of each plan with follow in this note.

	Net Pension Liability	Deferred Outflows	Deferred Inflows	Pension Expense
GOVERNMENTAL ACTIVITIES				
Texas Municipal Retirement System (TMRS)	\$ 20,175,840	\$ 4,374,475	\$ 7,026,645	\$ 5,995,785
Midland Firemen's Relief and Retirement Fund	119,218,752	62,211,100	5,423,335	19,787,843
Total Governmental Activities	<u>\$ 139,394,592</u>	<u>\$ 66,585,575</u>	<u>\$ 12,449,980</u>	<u>\$ 25,783,628</u>
BUSINESS-TYPE ACTIVITIES*				
Texas Municipal Retirement System (TMRS)	\$ 5,351,202	\$ 1,172,211	\$ 1,712,502	\$ 1,583,446
Total Business-Type Activities	<u>\$ 5,351,202</u>	<u>\$ 1,172,211</u>	<u>\$ 1,712,502</u>	<u>\$ 1,583,446</u>

*Same amounts for proprietary funds' financial statements.

A. Plan Descriptions

Texas Municipal Retirement System

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Texas Municipal Retirement System (Continued)

Benefits Provided (Continued)

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan Membership

Plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5 years
Service retirement eligibility (expressed as years of service/age)	5 years/age 60, 20 years/any age
Updated service credit	100% repeating, transfers
Annuity increase (to retirees)	50% of CPI repeating

Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or their beneficiaries currently receiving benefits	605
Inactive employees entitled to but not yet receiving benefits	590
Active employees	761
TOTAL	<u>1,956</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry-Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.



6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Texas Municipal Retirement System (Continued)

Contributions (Continued)

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.06% and 14.56% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 was \$7,063,858 and was equal to the required contributions.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment is used, with slight adjustments.

The Consumer Price Index (CPI) is assumed to be 2.50% per year prospectively. Annuity increases (also referred to as cost-of-living adjustments, or COLAs) are 1.38%, according to the provisions adopted by the City.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Texas Municipal Retirement System (Continued)

Actuarial Assumptions (Continued)

Actuarial assumptions used in the December 31, 2017 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy postretirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013.

Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Noncore Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
TOTAL	100.00%	



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Texas Municipal Retirement System (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a) - (b) Net Pension Liability
BALANCES AT JANUARY 1, 2017	\$ 307,423,938	\$ 262,248,983	\$ 45,174,955
Changes for the period			
Service cost	7,173,321	-	7,173,321
Interest	20,425,225	-	20,425,225
Difference between expected and actual experience	(1,024,053)	-	(1,024,053)
Employer contributions	-	6,862,664	(6,862,664)
Employee contributions	-	3,232,126	(3,232,126)
Net investment income	-	36,325,527	(36,325,527)
Benefit payments and refunds	(16,829,343)	(16,829,343)	-
Administrative expense	-	(188,365)	188,365
Other (net transfer)	-	(9,546)	9,546
Net changes	9,745,150	29,393,063	(19,647,913)
BALANCES AT DECEMBER 31, 2017	\$ 317,169,088	\$ 291,642,046	\$ 25,527,042



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Texas Municipal Retirement System (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following is a sensitivity analysis of the net pension liability (asset) to changes in the discount rate. The table below presents the pension liability (asset) of the City calculated using the discount rate of 6.75% as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability (asset)	\$ 68,044,145	\$ 25,527,042	\$ (9,353,464)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2018, the City recognized pension expense of \$7,579,231.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,549,976
Changes in assumption	428,763	-
Net difference between projected and actual earnings on pension plan investments	-	7,189,171
Contributions made after the measurement date	5,117,923	-
TOTAL	\$ 5,546,686	\$ 8,739,147



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Texas Municipal Retirement System (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

\$5,117,923 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>September 30,</u>	
2019	\$ (33,254)
2020	(666,399)
2021	(3,885,987)
2022	<u>(3,724,744)</u>
 TOTAL	 \$ <u>(8,310,384)</u>

Midland Firemen's Relief and Retirement Fund

Plan Administration

The Midland Firemen's Relief and Retirement Fund (the Fund) is established under the authority of the Texas Local Firefighters' Retirement Act (TLFFRA). The Board of Trustees of the Fund is the administrator of a single-employer defined benefit pension plan. The Fund is a separate legal entity with an independently elected board and issues its own audited financial statements. Additionally, the Fund has its own actuarial valuations performed as of December 31 in odd numbered years. The latest actuarial valuation report available is for the year ended December 31, 2017. All assumptions for this valuation are contained in the Fund's Actuarial Valuation Report and Review as of December 31, 2017, a copy of which may be obtained by writing the Midland Firemen's Relief and Retirement Fund Board of Trustees, 1500 W. Wall, Midland, TX 79701.

The plan was originally effective October 27, 1941, and was most recently amended in November 2011.

A degree of financial burden upon the City does exist to the extent the City makes contributions to the Fund equal to 22.20% of plan participants' pay. In the City's professional judgment, this burden is not sufficient to warrant inclusion of the Fund's activities within the City's basic financial statements.



6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Midland Firemen's Relief and Retirement Fund (Continued)

Eligibility

All uniformed employees of the Midland Fire Department, who were younger than age 36 on the date they were certified under Civil Service, are members of the Midland Firemen's Relief and Retirement Fund. Other employees who perform emergency, medical, or fire department related services become members of the Fund when approved by the Board of Trustees unless the employee elects to be covered by TMRS.

Benefits Provided

The Fund provides service retirement, death, disability, and withdrawal benefits. These benefits become fully vested after 20 years of credited service. Employees may retire with a normal retirement benefit at age 50 with 20 years of service. A partially vested benefit is provided for employees who terminate employment with at least ten but less than 20 years of service. Firefighters may retire with 25 years of service at any age. Employees are also eligible for a reduced early service retirement benefit upon termination of eligible employment with between 20 and 25 years of service and after attaining age 45. Benefits of retired firefighters are determined on a "formula" plan with normal benefits based on a percentage of the highest 60 months' average pay: 75% plus \$80 per month for each service year in excess of 20 years to the last completed month for service and disability benefits.

Widow benefits are based on 75% of the benefit the deceased firefighter would have been entitled to as a normal service retirement based upon the firefighter's salary and service at the time of death. The widow's benefit is 75% of the benefit the firefighter was receiving at the time of death if the firefighter was retired. Children's benefits until age 22 are 11.25% of the firefighter's average highest 60 months' pay if there is a surviving spouse. If there is no surviving spouse, children receive 22.50% of the firefighter's average highest 60 months' pay.

There are four Deferred Retirement Option Plans (DROP) and a 100% joint and survivor option.

DROP 1 allows a firefighter to contract with the fund to retire while he/she continues to be employed as a regular firefighter. His/her benefit and contributions are accumulated in a separate account with interest. DROP 1 may last no longer than three years at which time he/she leaves the fire department, receives his/her accumulated lump sum and begins receiving benefits as contracted for three years earlier.



6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Midland Firemen's Relief and Retirement Fund (Continued)

Benefits Provided (Continued)

DROP 2 is a reverse plan whereby the firefighter contracts to receive 90% of his/her normal retirement benefit and receives as a lump sum the reduced monthly benefit multiplied by 24 months.

DROP 3 allows a firefighter with at least 20 years of service and age 50 to declare his/her effective retirement date as no earlier than the date he/she actually had 20 years of service and was at least 50 years old. He/she receives a lump sum consisting of the benefit as of the effective date, his/her contributions since that date and interest thereon. A firefighter can DROP back to no more than three years. The 100% joint and survivor option allows the firefighter and his/her spouse to receive the same benefit for life, the normal benefit being reduced by 10% plus 0.40% per year that the beneficiary's age is less than the firefighter's age and minus 0.40% that the beneficiary's age is greater than the firefighter's. All benefits are subject to the IRS Section 415 limitation. Additionally, there is a \$10,000 death benefit for a beneficiary and a \$500 monthly supplement for the firefighter who retires at or after age 50 with 20 years of service or more. A 2% COLA is incorporated the January following five years of actual receipt of benefits and physical departure from the fire department. Under this plan, Midland firefighters are required to contribute 13.20% of their pay to the fund.

DROP 4 provides a Combined (Forward and Retroactive) DROP plan benefit. This option states that the firefighter must retire within three years of his Combined (Forward and Retroactive) DROP. The monthly benefit he will receive is determined based upon his salary and service at the beginning of the DROP period. At the conclusion of the DROP period, the firefighter will be paid an amount which is the sum of his employee contributions from the Forward DROP portion of the period plus the product of his monthly benefit amount times the number of months of the Forward DROP portion of the Combined (Forward and Retroactive) DROP period.

Retirees and beneficiaries are eligible to receive a 2% increase in their monthly benefits once they have received benefits for at least five years. Increases are not granted; however, unless the Fund's rolling five-year average rate of return is at least 8.25% per annum. Increases become effective on August 1 following the fifth full year of receipt of benefits by a retiree or beneficiary.



6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Midland Firemen's Relief and Retirement Fund (Continued)

Plan Membership

At the December 31, 2017 measurement date, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	169
Terminated employees entitled to but not yet receiving benefits	8
Active employees	<u>207</u>
 TOTAL	 <u><u>384</u></u>

Contributions

The City is statutorily required to make contributions that will equal the lesser of 9.00% or the firefighters' contribution rate. However, the City made contributions equal to 22.20% of pay as authorized by Ordinance 9596 that adopted the Fiscal Year 2018 budget that incorporated the increase above the statutory rate. The benefit and contribution provisions of this plan, other than the City's contribution rate, are authorized by the TLFRA.

The Fund is required by statute to conduct actuarial studies every odd year and conducted the last study December 31, 2017 for the plan in effect at that time.

The funding policy of the Fund requires contributions equal to 13.20% of pay by the firefighters. Subsequent to that, beginning November 2018, the Fund will require contributions equal to 14.20%. The contribution rates for the City were 22.20% for both calendar years 2017 and 2018. The City's contributions for the year ended September 30, 2018 were \$3,555,264 and were equal to the required contributions.

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary must approve each plan of benefits adopted by the Fund. The actuary certifies that the contribution commitments by the firefighters and the City provide an adequate financing arrangement.

Net Pension Liability

The Fund's net pension liability was measured as of December 31, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017.



6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Midland Firemen's Relief and Retirement Fund (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.25% per year
Overall payroll growth	3.50% per year
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

The plan contains an automatic cost-of-living increase which only raises non-active members' benefits if the fund's five-year rolling average rate of return is at least 8.25%. The rate exceeds the assumed discount rate by 1/4 of 1%. Under the plan's actuarial assumptions, the plan's assumed long-term average rate of return is less than the rate needed to produce a benefit increase. Consequently, no future automatic increases were included in the valuation calculations.

Salary increases were based on a service-related table, setting back each salary increase rate in the table used for the 2017 valuation by one year of service. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP-2000 Combined Healthy Mortality Tables, with separate rates for males and females.

Actuarial assumptions used in the December 31, 2017 valuation were based on results of actuarial experience studies. The experience study periods covered were different depending on how much prior data was available.

The long-term expected rate of return on pension plan investments of 7.75% (8.00% in prior valuation) was set by examining each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (currently resulting in 4.68%) and by adding expected inflation (3.25%).



6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Midland Firemen's Relief and Retirement Fund (Continued)

Actuarial Assumptions (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Cash and short-term fixed income	5%	0.00%
Fixed income	20%	1.45%
Equities, real estate, and alternative investments		
Large-cap	15%	5.65%
Small/mid-cap mutual funds	5%	6.15%
International developed	15%	6.15%
International developing	5%	7.65%
Real estate	25%	4.65%
Private equity	10%	7.65%
 TOTAL	 <u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 4.84% (8.0% in prior valuation). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current 14.20% contribution rate and that City contributions will be made at the current 22.20% contribution rate. Based on those assumptions, the Fund's fiduciary net position was projected to make projected future benefit payments of current active and inactive employees through 2043. Therefore, the discount rate of 4.84% is the single rate of return that results in a present value of all projected benefits equal to the sum of (a) the present value of benefits through 2043 discounted at the long-term expected rate of return of 7.75% and (b) the present value of benefits after 2043 discounted at the 3.44% discount rate based on the Bond Buyer Index of general obligation bonds with 20 years to maturity as of December 2017.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Midland Firemen's Relief and Retirement Fund (Continued)

Changes in Net Pension Liability

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a) - (b) Net Pension Liability
BALANCES AT JANUARY 1, 2017	\$ 140,416,713	\$ 82,664,948	\$ 57,751,765
Changes for the period			
Service cost	4,531,907	-	4,531,907
Interest	11,265,786	-	11,265,786
Differences between expected and actual experience	(5,933,150)	-	(5,933,150)
Employer contributions	-	3,555,264	(3,555,264)
Employee contributions	-	2,113,940	(2,113,940)
Net investment income	-	9,952,749	(9,952,749)
Benefit payments and refunds	(8,252,601)	(8,252,601)	-
Administrative expense	-	(279,569)	279,569
Assumption changes	66,944,828	-	66,944,828
Other (net transfer)	-	-	-
Net changes	68,556,770	7,089,783	61,466,987
BALANCES AT DECEMBER 31, 2017	\$ 208,973,483	\$ 89,754,731	\$ 119,218,752



6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Midland Firemen's Relief and Retirement Fund (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the City calculated using the discount rate of 4.84% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.84%) or 1 percentage point higher (5.84%) than the current rate:

	1% Decrease (3.84%)	Current Discount Rate (4.84%)	1% Increase (5.84%)
Net pension liability	\$ 148,075,381	\$ 119,218,752	\$ 95,589,262

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued report and may be obtained by visiting www.midlandfrrf.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2018, the City recognized pension expense of \$19,787,843. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 5,423,335
Changes in assumption	56,497,164	-
Net difference between projected and actual earnings on pension plan investments	2,872,441	-
Contributions made after the measurement date	2,841,495	-
TOTAL	<u>\$ 62,211,100</u>	<u>\$ 5,423,335</u>



6. EMPLOYEE BENEFIT PLANS (Continued)

A. Plan Descriptions (Continued)

Midland Firemen's Relief and Retirement Fund (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

\$2,841,495 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30,</u>	
2019	\$ 12,323,198
2020	11,586,733
2021	10,131,326
2022	9,468,520
2023	10,132,953
2024	<u>303,540</u>
 TOTAL	 <u>\$ 53,946,270</u>

B. Deferred Compensation

The City offers all employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In compliance with the Small Business Job Protection Act of 1996 and the Taxpayer Relief Act of 1997, the nature of assets held by deferred compensation plans are assets held in trust by the plan providers for the exclusive benefit of plan participants and their beneficiaries. The City retains no rights to plan assets or property nor has any liability for those assets.

C. Flexible Spending Account

The City offers all employees a flexible spending account, known as a cafeteria plan, which was established under Section 125 of the Internal Revenue Code. Administration of the plan is contracted to a third party administrator. Employee contributions are transferred to the administrator and posted to a debit card which the employee may use to pay for qualified medical expenses. The City retains no assets or liabilities of the plan.



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. EMPLOYEE BENEFIT PLANS (Continued)

D. Health Reimbursement Account

The City established a Health Reimbursement Account (HRA) in accordance with Internal Revenue Code Section 105-106 for employees who participate in the City's health insurance program. Administration of the plan is handled by a third party administrator. Effective January 1, 2016, the City no longer contributes monies into an HRA.

7. OTHER POSTEMPLOYMENT BENEFITS

A summary of the total OPEB liability, deferred outflows, deferred inflows and OPEB expense of each plan is shown below. Detailed discussion of each plan with follow in this note.

Plan	Total OPEB Liability	Deferred Outflows	Deferred Inflows	OPEB Expense
Retiree Health Care Plan				
Governmental Activities	\$ 22,549,102	\$ 650,192	\$ 48,860	\$ 2,095,609
Business-Type Activities	4,438,349	127,977	8,808	412,479
Supplemental Death Benefits				
Governmental Activities	\$ 2,158,768	\$ 154,313	\$ -	\$ 162,847
Business-Type Activities	570,116	40,753	-	43,007
Total	\$ 29,716,335	\$ 973,235	\$ 57,668	\$ 2,713,942

A. City of Midland Postemployment Healthcare Benefit Plan

Plan Description

One of the City's other postemployment benefits (OPEB) plan is a single-employer defined benefit "substantive plan" as understood by past practices of the employer and its employees. City employees are eligible for retiree medical benefits if they are eligible for retirement plan benefits under the provisions of the TMRS or the Fund. Generally, employees eligible for retiree medical benefits are employees who retire with 20 years of service at any age or those employees who retire at age 60 with five years of service. Eligible participants include eligible spouses. The eligible member shall not be gainfully employed if receiving benefits from this plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The City's OPEB plan does not issue a publicly available financial report.

Benefits are payable through a self-insured plan for eligible retirees and spouses until age 65. A Medicare Supplement Plan is available for eligible retirees and spouses who are age 65 and over.



7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

A. City of Midland Postemployment Healthcare Benefit Plan (Continued)

Benefits Provided

The City allows retired employees to enroll in the City's health insurance plan. Effective January 1, 2016, the City contributes a flat amount to all retirees (regardless of years of service). The amount is \$50 per month for retiree only coverage; \$75 a month for retiree and child(ren) coverage; \$100 for retiree and spousal coverage; and \$150 per month for retiree and family coverage. City contributions for these postemployment retirement benefits are strictly discretionary and are financed on a pay-as-you-go basis. OPEB contributions during the year ended September 30, 2018 were \$778,169. The retired employees are required to pay the balance of their respective health plan contributions or premiums to participate in either plan.

Plan Membership

At the December 31, 2017 measurement date, the following employees were covered by the benefit terms:

Active primary managers	922
Self-insured plan primary members (<65)	92
Medicare supplement plan members (>65)	<u>140</u>
TOTAL	<u><u>1,154</u></u>

Total OPEB Liability for Retiree Health Care Plan

The Plan's total OPEB liability of \$26,987,451 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Plan's total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions; applied to all periods included in the measurement, unless otherwise specified.

Inflation	2.50%
Discount rate	3.00%
Healthcare cost trend rates	8.00% Initial 4.50% Ultimate



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

A. City of Midland Postemployment Healthcare Benefit Plan (Continued)

Actuarial Assumptions (Continued)

The discount rate used to measure the Plan's total OPEB liability was 3% and was based upon reviewing market data based on several bond indices, including the Bond-Buyer 11-Bond GO Index. The yield for this index for the week ending December 31, 2017 was 2.94% and this result was rounded to 3%.

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on scale MP-2017.

Changes in the Plan's Total OPEB Liability

	<u>Total OPEB Liability</u>
BALANCES AT JANUARY 1, 2017	<u>\$ 25,273,491</u>
Changes for the period	
Service cost	1,766,340
Interest on total OPEB liability	745,864
Difference between expected and actual experience	(57,668)
Benefit payments	<u>(740,576)</u>
Net changes	<u>1,713,960</u>
BALANCES AT DECEMBER 31, 2017	<u>\$ 26,987,451</u>

Rate Sensitivity

The following is a sensitivity analysis of the total OPEB liability to changes in the discount rate and the healthcare cost trend rate. The table below presents the total OPEB liability of the City calculated using the discount rate of 3%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2%) or 1 percentage point higher (4%) than the current rate:

	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)
Total OPEB liability	\$ 31,133,369	\$ 26,987,451	\$ 23,545,849



CITY OF MIDLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

A. City of Midland Postemployment Healthcare Benefit Plan (Continued)

Rate Sensitivity (Continued)

The table below presents the total OPEB liability of the City calculated using the healthcare rate of 8%, decreasing to 4.50% by 2024, as well as what the City's total OPEB liability would be if it were calculated using a healthcare rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Healthcare Rate	1% Increase
Total OPEB liability	\$ 24,604,326	\$ 26,987,451	\$ 29,939,960

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$2,508,088. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 57,668
Contributions made subsequent to measurement date	778,169	-
TOTAL	\$ 778,169	\$ 57,668

The \$778,169 reported as deferred outflows related to OPEB resulting from contributions subsequent to the measurement date will reduce the total OPEB liability during the year ending September 30, 2019. The amount reported as deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ending September 30,</u>	
2019	\$ (4,116)
2020	(4,116)
2021	(4,116)
2022	(4,116)
2023	(4,116)
Thereafter	(37,088)
TOTAL	\$ (57,668)



7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

B. Texas Municipal Retirement System Supplemental Death Benefits Funds

Plan Description

TMRS administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Funds (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e., no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for city reporting.

Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500.

Plan Membership

At the December 31, 2017 measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	456
Inactive employees entitled to but not yet receiving benefits	105
Active employees	761
 TOTAL	 1,322

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefits for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.



7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

B. Texas Municipal Retirement System Supplemental Death Benefits Funds
(Continued)

Contributions (Continued)

Contributions are made monthly based on the covered payroll of the city. The contractually required contribution rate is determined annually for the city. The rate is based on mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

The retiree portion of the contribution rates to the SDBF for the City was 0.07% and 0.06% in calendar years 2017 and 2018, respectively. The City's contributions to the SDBF for the year ended September 30, 2018 were \$37,105, and were equal to the required contributions.

Total OPEB Liability for Supplemental Death Benefits

The City's total OPEB liability of \$2,728,884 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary increases	3.50% to 10.50%, including inflation
Discount rate	3.31% (3.78% in prior year)
Retiree's share of benefit-related costs	0.00%

Salary increases were based on a service-related table. Mortality rates for service retirees were based on the RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment is used, with slight adjustments.