



COMPREHENSIVE
ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2015

MIDLAND, TEXAS

THE CITY OF MIDLAND, TEXAS

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2015**

Prepared By:

Finance Department

Pam Simecka, Director of Finance

Charlene Fox, Comptroller

Shelby Zuniga, Accounting Manager

City of Midland
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended September 30, 2015

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March 28, 2016

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

Dear Mayor and Council:

The Comprehensive Annual Financial Report (CAFR) for the City of Midland (the City) for the year ended September 30, 2015 is submitted herewith in compliance with Article IV, Section 29, of the City Charter. This report is published to give our citizens convenient access to a report of the financial condition of our City, its resources during the past fiscal year and uses made of such resources, the results of operations of the various proprietary funds, and comparative and statistical information. The information contained herein will also serve our City Council, management, and staff as a guide in formulating policies and conducting the City's day-to-day affairs. The City's Finance Department is responsible for the accuracy of the data presented and the completeness and fairness of the presentation.

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

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

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

PROFILE OF THE GOVERNMENT

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

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

The financial reporting entity contains all funds of the primary government (i.e., the City of Midland as legally defined), as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides a wide range of services to the citizens, including police and fire protection, health and social services, public improvements, streets, traffic control, planning and zoning, water and sewer, solid waste, airports, parks and recreation facilities and general administrative services.

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

LOCAL ECONOMY

Midland is located midway between Fort Worth and El Paso, along Interstate 20, in West Texas. The city has remained a management center, reflecting a unique concentration of highly trained and educated personnel. According to the U.S. Census Bureau 2010-2014 American Community Survey 5-year estimate, bachelor's degrees or higher are held by 18.2% of the population 25 years and older, and graduate or professional degrees are held by 7.3%. Attributes, such as the educational levels of the populace, in conjunction with good weather, the high quality of life, and the central location, which facilitates travel and shipping to both coasts, have made Midland a viable candidate in the recruitment of new or relocating businesses.

In 2014, published November 19, 2015 by the U.S. Department of Commerce Bureau of Economic Analysis, Midland attained the nation's highest per capita personal income (PCPI) in the United States. Midland serves as a regional administrative center for petroleum production.

The economic outlook for the City published by the Midland Development Corporation December 8, 2015 "The general economy of the Midland-Odessa metro area will remain in contraction for the foreseeable future". According to the Texas Workforce Commission, Midland reported an unemployment rate of 3.3% for September 2015, Texas Metropolitan Statistical Areas (MSA). Midland is doing an excellent job of utilizing economic development resources, primarily economic development tax funds, to expand the economic base by attracting new companies and also assisting local existing businesses with funding expansion projects.

The city's residential, commercial and industrial growth has been influenced by the development of two city airports, Midland International Airport and Midland Airpark. Midland International Airport is the hub of aviation activity for a 43 county area of West Texas and southeast New Mexico. The full service Foreign Trade Zone (FTZ) at the Midland International Airport assists in the development of a diversified economy. Midland International is also a designated Port of Entry and has a U.S. Customs Office. The Midland metro SA estimated population, estimated to be 157,680 by the Office of the State Demographer Texas State Data Center. Projections created and prepared for 2013, estimated February 2013. A steady growth in the number of utility connections and annexations has created more demand on the water system. Development of the T-Bar well field and the clear water well fields has helped meet the demands for water for the City. Midland's growth helps create opportunities in commercial, industrial and residential areas. The past several years have seen the opening of a number of new national chain retail and service businesses. More moderate growth is expected in the property tax base for Fiscal Year 2016, and the sales tax receipts for 2015 continued to be strong but lower than in 2014, a record setting year.

LONG-TERM FINANCIAL PLANNING

Every year, the City Council sets a list of priorities as targets for action during the next year. The list is a product of the Strategic Planning Session where City Council and City Staff come together and design a blueprint for action. This includes examining where we have been as well as planning and preparing for the future needs of the City.

During the 2015 Strategic Planning Session, the following strategic initiatives were reviewed and updated at City Council retreat for 2015-2016.

STRATEGIC INITIATIVES

- Downtown revitalization funds, Tax Increment Reinvestment Zone discussion to eliminate, and subsequently August 2015 Council voted to cease this initiative one year later.
- Road and State funding. Projects discussed included: Tradewinds Boulevard, Fairgrounds Road widening, a five-lane widening of Fairgrounds Road from Loop 250 to Pecan Avenue was scheduled to be complete by fall 2016.
- Mockingbird Lane extension in the north between Holiday Hill Road and Midland Drive will be delayed for now.
- TXDOT discussion about intersection lights were discussed and the pursuit of local funding.
- Development and storm water fees were discussed especially with more regulations scheduled to be imposed by 2018 from the EPA.

The five major items helped create a road map to guide comprehensive planning during the 2015-2016 Strategic Planning Session. The discussions helped plan how to improve the City through downtown attractions, new roads and revenue streams

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

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

The City Manager, through his appointee, the Director of Finance, is responsible for maintaining an adequate and effective system of accounts and for establishing and maintaining an internal accounting control system that gives reasonable assurance that assets are being safeguarded

against loss from unauthorized use or disposition, and that the financial records can be relied upon for preparing financial statements and maintaining accountability for assets.

We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget, which represents the financial plan for the ensuing fiscal year, includes proposed expenditures and the means of financing them. Public hearings are conducted at which comments from all interested persons concerning the budget are heard. The budget is legally enacted by the City Council through passage of an ordinance.

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

FINANCIAL PRACTICES

The City adheres to the following financial and managerial practices:

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

MAJOR INITIATIVES

Service to the citizenry is a priority of governments. Maintaining and improving infrastructure and quality of life are a large part of that service. December 2014 Fire Station #10 located at 4501 Sinclair Avenue officially opened, this was the first new station in more than 30 years. Construction of Fire Station 6, on Tradewinds Boulevard, was approved by City Council November 17, 2015. A joint project with the Texas Department of Transportation for the widening of Fairgrounds Road from East Pecan Avenue to State Highway Loop 250 was also approved by City Council November 17, 2015. The Municipal Court Building Project is scheduled to be complete sometime in the summer of 2016. The Radio System Upgrade Project was nearly completed by end of FY 2015. Entergov code and permit software went live May

2015 and the Financial System software went live Oct 1, 2015. The Payroll software section was scheduled to go live January 2016. The Landfill cell 7 project is complete and the scale house and entrance facility project was more than 50% complete by September 30, 2015.

GENERAL GOVERNMENTAL FUNCTIONS

All eligible property within the City is subject to assessment, levy, and collection by the City of a continuing, direct ad valorem tax sufficient to provide for the payment of principal and interest on outstanding bonds within the limits prescribed by law, and the payment of operation and maintenance costs as approved by the City Council. According to Article V, Section 2, of the City Charter, the maximum tax levy is \$2.00 per \$100.00 of assessed valuation, which includes debt service. Based upon an assessed valuation of 100% of market valuation, the tax rate for Fiscal Year 2015 was established at 39.3891 cents per \$100.00 of assessed valuation.

A comparison of tax rates, together with allocations to the General Fund and the Debt Service Fund are as follows:

Roll Year	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Fiscal Year	15/16	14/15	13/14	12/13	11/12
General Fund	\$0.332215	\$0.337480	\$0.385719	\$0.404049	\$0.418450
Debt Service	<u>0.048265</u>	<u>0.056411</u>	<u>0.046208</u>	<u>0.057039</u>	<u>0.052090</u>
Total	\$0.380480	\$0.393891	\$0.431927	\$0.461088	\$0.470540

The City general purpose sales tax rate is 1%. Sales taxes are collected by the State of Texas (the State) and remitted to the City monthly. This source of revenue amounted to \$44,575,741, which was an increase of 2.76% from the prior fiscal year. Sales tax receipts are expected to come in lower in fiscal year 2016. Gross receipt taxes include franchise taxes levied on the electric, gas, telephone, water, sanitation, and cable television utilities. A hotel occupancy tax partially funds the operation of the Midland Center, also funding economic development and promotion of tourism. The hotel occupancy tax was particularly strong during 2015, an increase of 20.3% from the prior fiscal year.

DEBT ADMINISTRATION

The City's strong, positive, and responsive management is reflected by the fact the City has maintained its strong ratings through the challenges of changing economies. The City of Midland did not issue any debt in 2015. During 2015, both Fitch Rating Service and Standard & Poor's reaffirmed the underlying rating on the City's general obligation debt at AAA and AA+, respectively.

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

FISCAL RESPONSIBILITIES

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

AWARDS AND ACKNOWLEDGMENTS

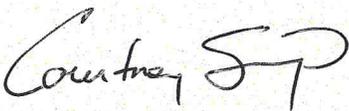
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Midland, Texas, for its comprehensive annual financial report for the fiscal year ended September 30, 2014. This was the twenty-ninth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,



Courtney Sharp
City Manager



Pam Simecka
Director of Finance



Government Finance Officers Association

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

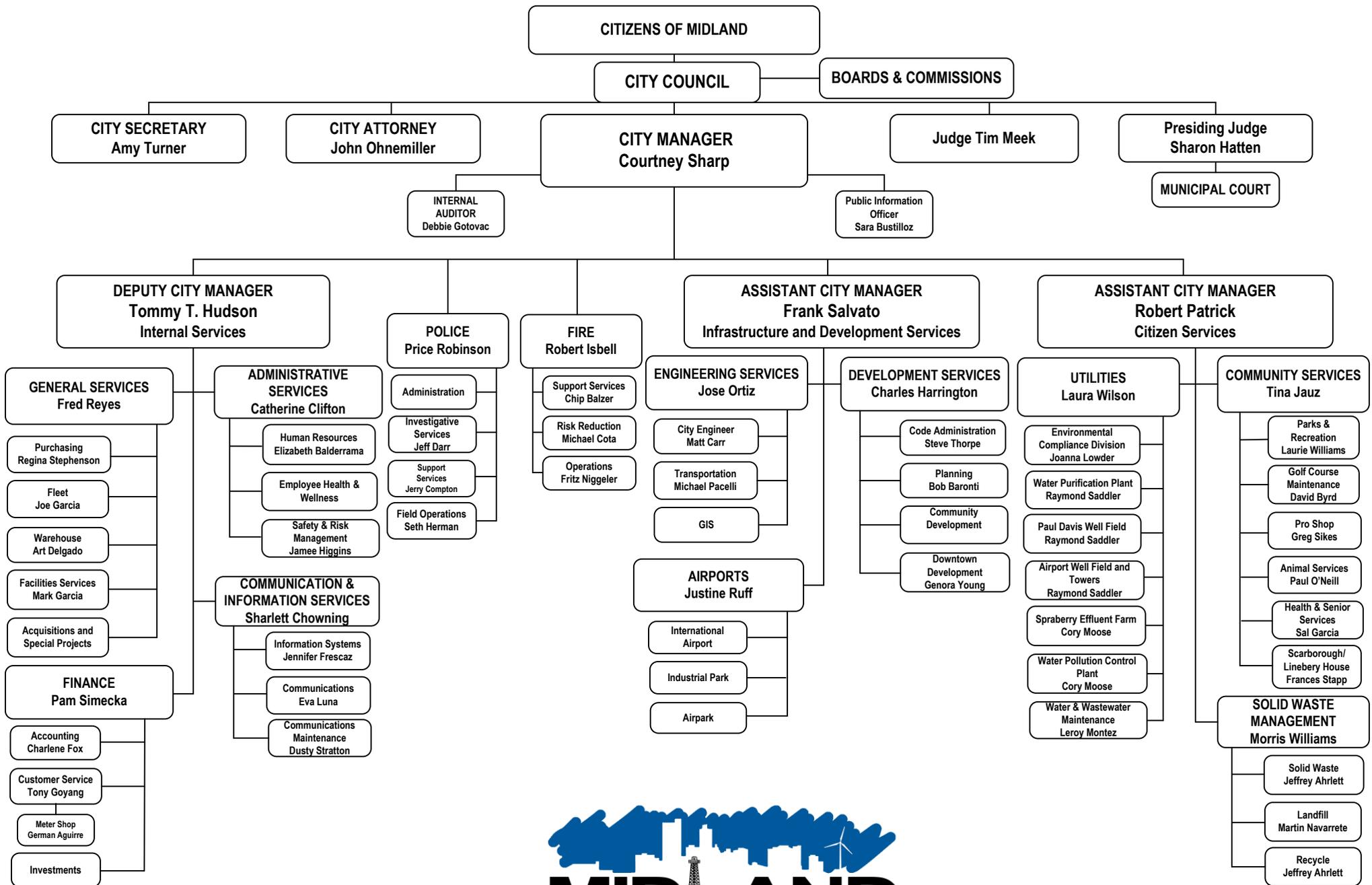
Presented to

**City of Midland
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2014

Executive Director/CEO



CITY OF MIDLAND
PRINCIPAL OFFICIALS

CITY COUNCIL

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

OTHER PRINCIPAL OFFICERS

Courtney B. Sharp City Manager
Tommy T. Hudson Deputy City Manager
Robert Patrick Assistant City Manager
John Ohnemiller City Attorney
Amy M. Turner City Secretary
Price Robinson Chief of Police
Robert Isbell Fire Chief
Pam Simecka Director of Finance
Tina Jauz Director of Community Services
Justine Ruff Director of Airports
Laura Wilson Director of Utilities
Morris Williams Director of Solid Waste Management
Chuck Harrington Director of General Services



KPMG LLP
Two Park Square, Suite 700
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Albuquerque, NM 87110-8179

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Midland, Texas (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Midland, Texas, as of September 30, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1.O. to the basic financial statements, effective October 1, 2014, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management’s Discussion and Analysis and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The accompanying introductory section, combining and individual nonmajor fund financial statements, statistical section, and supplemental section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Albuquerque, New Mexico
March 30, 2016

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015
(Unaudited)

As management of the City of Midland, Texas (City of Midland or City), we offer readers of the City's basic financial statements this narrative overview and analysis of the financial activities of the City of Midland for the fiscal year ended September 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets of the City of Midland exceeded its liabilities at the close of the most recent fiscal year by \$483.1 million (net position). Unrestricted net position of \$102.2 million, an increase of \$8.3 million from the prior year, may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Midland governmental activities reported combined net position of \$160.1 million, an increase of \$22.0 million in comparison with the prior year. Approximately 5.7% of this total amount, \$9.1 million, is available for spending at the government's discretion (unrestricted net position).
- As of September 30, 2015, unassigned fund balance for the General Fund was \$47.7 million, or 43.7% of total General Fund expenditures. At the close of the prior fiscal year, unassigned fund balance for the General Fund was \$39 million or 39.6% of that year's expenditures.
- The government's business-type activities total net position increased from \$309.5 million in Fiscal Year 2014 to \$323.0 million in the current year, a change of 4.2%. Factors in this change were \$6.3 million in water and sewer capital contributions, \$7.8 million net revenues in sports complex activities and \$0.6 million in airport grants and contributions.
- The City's total debt decreased by \$7.0 million during the current fiscal year. The source of this decrease was principal payments of \$8.8 million and amortization of debt premium of \$0.7 million. The \$2.4 million negative amortization of the Freshwater capital lease partially offset the decrease.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Midland's basic financial statements. The City of Midland's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. GASB 68 and GASB 71 have been implemented with the previous year restated as necessary in the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015
(Unaudited)

Government-wide Financial Statements

The Statement of Net Position presents information on all of the City's assets and outflows of resources, and liabilities and inflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Midland is improving or deteriorating.

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

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

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

Fund Financial Statements

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

1. Governmental Funds

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

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015
(Unaudited)

Fund Financial Statements (continued)

1. Governmental Funds (continued)

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

The City of Midland maintains 21 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Debt Service Fund, both of which are considered to be major funds. Data from the other 19 governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

2. Proprietary Funds

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

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

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Fund Financial Statements (continued)

2. Proprietary Funds (continued)

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

Notes to Basic Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Midland's progress in funding its obligation to provide pension benefits to its employees, other postemployment benefits, and budgetary comparison schedules. The City of Midland adopts annual appropriated budgets for its General and Debt Service funds. A budgetary comparison schedule is presented as required supplementary information for the General Fund to demonstrate budgetary compliance.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position was \$483.1 million at September 30, 2015.

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

The restricted portion of the City's net position, \$28.1 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$102.2 million, may be used to meet the government's ongoing obligations to citizens and creditors.

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

Government-wide Financial Analysis (continued)

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

	Governmental Activities		Business-type Activities		Totals	
	2015	2014 (Restated)	2015	2014 (Restated)	2015	2014 (Restated)
Current and other assets	\$ 151,805	\$ 161,038	\$ 142,568	\$ 125,470	\$ 294,373	\$ 286,508
Capital assets	167,477	135,041	531,347	532,556	698,824	667,597
Total assets	<u>319,282</u>	<u>296,079</u>	<u>673,915</u>	<u>658,026</u>	<u>993,197</u>	<u>954,105</u>
Deferred outflows of resources	13,503	6,750	2,597	1,916	16,100	8,666
Long-term liabilities outstanding	152,212	144,959	334,794	337,375	487,006	482,334
Other liabilities	20,494	19,773	18,690	13,104	39,184	32,877
Total liabilities	<u>172,706</u>	<u>164,732</u>	<u>353,484</u>	<u>350,479</u>	<u>526,190</u>	<u>515,211</u>
Net position:						
Net investment in capital assets	130,732	108,777	222,043	220,763	352,775	329,540
Restricted	20,226	15,059	7,891	9,026	28,117	24,085
Unrestricted	9,121	14,261	93,094	79,674	102,215	93,935
Total net position	<u>\$160,079</u>	<u>\$138,097</u>	<u>\$ 323,028</u>	<u>\$ 309,463</u>	<u>\$483,107</u>	<u>\$447,560</u>

At the end of the current fiscal year, the City of Midland is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Overall, the government's net position, at September 30, increased \$35.5 million during the current fiscal year, with governmental activities reflecting an increase of \$22.0 million and business-type activities increasing \$13.6 million. The increase in governmental activities net position is the product of increased revenue from property taxes, sales taxes, hotel-motel taxes and grants and contributions offsetting an increase in levels of expenses. The increase in the net position of business type activities is attributable to contributions, grants received, assets contributed by developers, and an increase in charges for services and payments received due to the growth in sales tax. GASB 68 and GASB 71 have been implemented with the previous year restated as necessary in the financial statements and this would affect the amount of change from the previous year if analyzing from year to year.

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

Government-wide Financial Analysis (continued)

The following table provides a summary of the City's operations for the year ended September 30, 2015 with comparative totals for the year ended September 30, 2014.

Table 2
City of Midland's Changes in Net Position
(in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2015	2014 (Restated)	2015	2014 (Restated)	2015	2014 (Restated)
Revenues:						
Program revenues:						
Charges for services	\$ 12,522	\$ 11,966	\$ 100,816	\$ 96,408	\$ 113,338	\$ 108,374
Operating grants and contributions	1,384	1,711	6	2	1,390	1,713
Capital grants and contributions	13,503	10,066	6,911	13,022	20,414	23,088
General revenues:						
Property taxes	40,962	39,005	-	-	40,962	39,005
Sales taxes	42,943	44,776	-	-	42,943	44,776
Other taxes	22,294	20,016	-	-	22,294	20,016
Other	2,116	1,696	1,413	846	3,529	2,542
Total revenues	<u>135,724</u>	<u>129,236</u>	<u>109,146</u>	<u>110,278</u>	<u>244,870</u>	<u>239,514</u>
Expenses:						
General government:						
Administration	1,796	1,842	-	-	1,796	1,842
Support services	14,146	13,383	-	-	14,146	13,383
Fiscal management	2,058	2,197	-	-	2,058	2,197
Other	10,718	7,282	-	-	10,718	7,282
Development services	4,017	4,050	-	-	4,017	4,050
Engineering	16,352	14,100	-	-	16,352	14,100
Community services	12,116	10,959	-	-	12,116	10,959
Police	25,392	25,341	-	-	25,392	25,341
Fire	28,683	24,163	-	-	28,683	24,163
Interest on long-term debt	1,818	1,955	-	-	1,818	1,955
Airport	-	-	10,328	9,592	10,328	9,592
Water and sewer	-	-	64,164	61,679	64,164	61,679
Sanitation	-	-	10,927	10,453	10,927	10,453
Sports complex	-	-	4,289	4,665	4,289	4,665
Golf course	-	-	2,519	2,288	2,519	2,288
Total expenses	<u>117,096</u>	<u>105,272</u>	<u>92,227</u>	<u>88,677</u>	<u>209,323</u>	<u>193,949</u>
Increase in net position before transfers	18,628	23,964	16,919	21,601	35,547	45,565
Transfers	3,354	4,184	(3,354)	(4,184)	-	-
Increase in net position	<u>21,982</u>	<u>28,148</u>	<u>13,565</u>	<u>17,417</u>	<u>35,547</u>	<u>45,565</u>
Net position - October 1	138,097	109,949	309,463	292,046	447,560	401,995
Net position - September 30	<u>\$160,079</u>	<u>\$138,097</u>	<u>\$323,028</u>	<u>\$309,463</u>	<u>\$483,107</u>	<u>\$447,560</u>

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

Governmental Activities

Table 3
City of Midland's General Revenues
(in Thousands)

	2015	2014	Increase (decrease)
Property taxes	\$ 40,962	\$ 39,005	\$1,957
Sales taxes	42,943	44,776	(1,833)
Gross receipts taxes	13,601	12,733	868
Hotel/motel taxes	7,835	6,513	1,322
Other taxes	857	770	87
Unrestricted investment earnings	2,117	1,559	558
Miscellaneous	-	137	(137)
Total general revenues	\$ 108,315	\$ 105,493	\$2,822

Revenues for governmental activities were \$135.7 million, excluding transfers from other funds of \$3.4 million, and were used to pay for expenses associated with governmental activities of \$117.1 million.

The City's general revenues provided \$108.3 million, an increase of \$2.8 million from the previous fiscal year, to fund the costs associated with activities that are not self-supporting. It is anticipated that governmental activities will not be self-supporting and be paid for through general revenues.

The primary sources of revenue for governmental activities are taxes, fees, investment earnings and grants and contributions. During fiscal year 2015, property taxes generated \$41 million, an increase of \$2 million over the previous year, and were derived from a property tax base of \$10.244 billion, up from \$8.838 billion the previous year, combined with a property tax rate of 39.3891 cents per hundred dollars valuation, a decrease of 0.038036 cents from the previous year. An economy affected by lower oil prices generated sales taxes of \$42.9 million, a decrease from the previous year of \$1.8 million. Gross receipts taxes, or franchise fees, contributed \$13.6 million to operations. Operating grants and contributions provided \$1.4 million, while capital grants and contributions provided another \$13.5 million. Developer contributions comprised \$7.1 million, or 54%, of the total capital contributions. Investment income provided \$2.1 million, an increase of \$0.6 million. An increase in the fair value of investments as of September 30 was a factor.

The most significant expenses of governmental activities are those associated with providing police protection, fire protection, engineering, development services, community services and the support services necessary to provide these services. Police protection, \$25.4 million, and

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities (continued)

fire protection, \$28.7 million, represent a combined 46.2% of all governmental activities expenses this year, an increase of \$4.6 million from the previous year. Other postemployment benefits accounts for \$0.9 million of the police and fire costs.

Engineering, \$16.4 million, followed by support services for all City functions, \$14.1 million, and community services, \$12.1 million, are the largest governmental activities expenses outside of public safety related costs. The governmental activities expenses were funded with \$12.5 million charged for services rendered, \$1.4 million received as operating grants and contributions, and \$111.7 million in general revenues and transfers.

Business-Type Activities

Net position of business-type activities increased by \$13.6 million, or 4.4% from \$309,463 to \$323,028. Revenues contributed \$109.1 million to the operations of the City of Midland. Expenses of these activities were \$92.2 million before transfers of \$3.4 million.

Charges for services for business-type activities increased 4.4%. Water and Sewer revenue accounts for the largest portion of this increase. An increase in the number of water and sewer customer accounts and rate increases contributed to a revenue increase. Sanitation had an increase from the previous year as a result of rate increases and additional customers. The Airport decrease of \$1.0 million was related to a \$1.5 million oil and gas lease bonus received only in 2014 offset partially by increases in parking revenues and building rentals. Sports Complex and Golf Course provided the remainder of business-type activity charges for services.

Grants and contributions, \$6.9 million, and investment earnings, \$1.4 million, were the other components of business-type activity revenue for the City. During Fiscal Year 2014, these two revenue streams were \$13 million and \$0.8 million, respectively. The decrease in grants and contribution revenues during Fiscal Year 2015 can be attributed to a downturn in housing development and the related contribution of infrastructure, as well as a reduction in FAA grants to the Airport. The Airport only had one active grant during 2015, in its final stage; the associated expenses were not as high as previous years.

Expenses of business-type activities were less than combined revenues and grants. The Water and Sewer system had \$64.2 million in expenses, prior to \$1.1 million in transfers, Airport expenses were \$10.3 million, and Sanitation had \$10.9 million in expenses. Expenses were \$4.3 million and \$2.5 million, respectively, for the Scharbauer Sports Complex and Golf Course. Net position of the Airport, Sanitation and Sports Complex activities increased from Fiscal Year 2014.

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Analysis of the Government's Funds

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

1. Governmental Funds

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

As of the end of the current fiscal year, the City of Midland's governmental funds reported combined ending fund balance of \$113.3 million, a decrease of \$9.1 million in comparison with the prior year. Approximately 42.1% (\$47.7 million) of this total amount constitutes unassigned fund balance and is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it has already been 1) restricted by specific legal requirements, such as by debt covenants or other purposes (\$36.6 million), 2) committed and assigned to pay for specific types of expenditures (\$28.2 million), 3) nonspendable – prepayments or advances (\$0.9 million).

The General Fund is the chief operating fund of the City of Midland. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$47.7 million, compared with \$39 million last year, while 2015 total fund balance increased to \$71.1 million from \$69.6 million in 2014. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance currently represents 43.7% of total General Fund expenditures, up from 39.6% in 2014, while total fund balance represents 65.2%, compared with 70.6% in 2014, of that same amount.

Fund balance of the City of Midland's General Fund increased \$1.5 million during the current fiscal year. Key factors in this increase are as follows:

Ad valorem tax revenues increased \$2.0 million due to an increased property valuation base and a rate increase of \$0.038036 per hundred dollar valuation. Sales tax receipts, which are driven by numerous economic conditions, were down \$1.8 million in accordance with the growth in the local economy, largely due to higher oil prices during the year related to the appraisal of property.

Expenditures in total were \$4.4 million more than original budget. Capital project expenditures not in the original budget accounted for \$13.7 million in increases to the budget. A major component offsetting these increases was \$4.8 million

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Analysis of the Government's Funds (continued)

1. Governmental Funds (continued)

budgeted for mill and overlay that was transferred to multi-year capital projects.

The total fund balance for the Debt Service Fund is \$0.8 million, all of which is restricted for the payment of debt service.

2. Proprietary Funds

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

Unrestricted net position of the Water and Sewer Fund at the end of the year amounted to \$43.3 million, an increase of \$2.2 million from 2014. The change in Water and Sewer total net position was a decrease of \$1.80 million. An increase in the number of water customer accounts and rate increases had an impact on water revenue, which was \$2.8 million higher than last year. Expenditures associated with the purchase of water, however, increased \$2 million. Capital contributions of \$6.3 million helped offset the decrease in total net position.

Airport Fund unrestricted net position amounted to \$6.7 million, up from \$6.1 million in Fiscal Year 2014. Airport Fund net investment in capital assets, increased by \$1.3 million, and total net position increased \$0.6 million. The Airport received \$0.6 million in capital and operating grants.

Unrestricted net position of the Sanitation Fund at the end of the year amounted to \$2.1 million, up from (\$0.9) million in 2014. Sanitation Fund net investment in capital assets, increased by \$2.7 million. The resulting change in total net position of \$3.9 million is attributable to the additional tonnage accepted at the Municipal Solid Waste Facility due to the expanding population base and rate increases.

The Scharbauer Sports Complex Fund unrestricted net position increased by \$6.1 million and total net position increased by \$7.8 million compared with the prior fiscal year. The Sports Complex Development Corporation contract revenue, which is a result of sales tax revenue to this component unit of the City of Midland, exceeded the payments for debt service by \$7.8 million.

Unrestricted net position of the Golf Course Fund at the end of the year amounted to (\$0.6) million, a decrease of \$0.5 million from the previous fiscal year due to a construction project on the course reducing play revenue while expenses saw an increase.

Other factors concerning the finances of these five funds have already been addressed in the discussion of the City of Midland's business-type activities.

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General Fund Budgetary Highlights

The City made revisions to the original appropriations approved by the City Council. These changes resulted in an overall increase in budgeted expenditures from the original budget of 13.2% or \$13.9 million. \$13.7 million of the increase is related to capital projects. Management's estimate of the General Fund's budgeted revenues was unchanged from original budget.

Capital Assets and Debt Administration

Capital Assets

The City of Midland's investment in capital assets for its governmental and business type activities as of September 30, 2015, amounts to \$698.8 million (net of accumulated depreciation), \$667.6 million (net of accumulated depreciation) at September 30, 2014. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads and highways, water lines, and drainage improvements. Capital asset detail can also be found in the notes to the financial statements, note 6.

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

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 6,920	\$ 6,675	\$ 14,413	\$ 14,353	\$ 21,333	\$ 21,028
Buildings	21,489	21,744	33,093	33,701	54,582	55,445
Improvements other than buildings	15,600	6,554	50,301	52,839	65,901	59,393
Machinery and equipment	32,044	25,613	3,477	3,194	35,521	28,807
Infrastructure	81,051	70,482	418,298	422,308	499,349	492,790
Intangible and other	1,564	1,288	1,659	2,034	3,223	3,322
Construction in progress	8,809	2,685	10,106	4,127	18,915	6,812
Totals	<u>\$ 167,477</u>	<u>\$ 135,041</u>	<u>\$ 531,347</u>	<u>\$ 532,556</u>	<u>\$ 698,824</u>	<u>\$ 667,597</u>

Major capital assets events during the current fiscal year included the following:

Facilities – The Municipal Court building project was begun during fiscal year 2015 and accounted for \$2.1 million of building construction costs.

Communications - The Radio System Upgrade project accounted for a \$3.6 million purchase of radio equipment during fiscal year 2015.

Engineering – Several street infrastructure projects including several street paving work projects were completed. Major expenditures included Tradewinds Street, Fairgrounds Road, and the Mill and Overlay projects.

Airport – The Terminal Vehicle Parking expansion project was complete at the beginning of fiscal year 2015. The Northwest Taxilane extension and Airport lighting cable and signage project were substantially complete by the close of fiscal year 2015.

Sanitation – The scale house construction project was begun and incurred approximately \$2.9 million expenses during fiscal year 2015.

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Capital Asset and Debt Administration (continued)

Long-Term Debt

At the end of the current fiscal year, the City of Midland had total general obligation bond debt outstanding of \$134.6 million. Of this amount, \$56.2 million is general government debt. Business-type activity debt is supported by Water and Sewer system revenues, \$58.7 million in bond debt and \$232.1 million in capital lease obligation. The Golf Course revenues, \$2.0 million, a combination of Airport revenues and Airport passenger facility charges, \$1.6 million, and a contract with the Midland Football/Soccer and Baseball Development Corporation, \$16.1 million are all bonded debt.

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

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Certificates of Obligation serviced by tax revenues	\$ 56,245	\$ 59,406	\$ -	\$ -	\$ 56,245	\$ 59,406
Notes Payable	-	100	-	-	-	100
Certificates of Obligation serviced by Enterprise Funds revenues	-	-	60,447	63,053	60,447	63,053
General Obligation Bonds serviced by Enterprise Funds revenues	-	-	17,916	21,500	17,916	21,500
Capital Lease Obligation	-	-	232,059	229,630	232,059	229,630
	<u>\$ 56,245</u>	<u>\$ 59,506</u>	<u>\$ 310,422</u>	<u>\$ 314,183</u>	<u>\$ 366,667</u>	<u>\$ 373,689</u>

The City of Midland's general obligation debt decreased by \$7.0 million during the current fiscal year due to existing debt retirements and amortization of premiums totaling \$9.4 million offset by a \$2.4 million increase in capital lease obligation with a negative amortization. Debt serviced by tax revenues decreased by \$3.3 million and debt serviced by Enterprise Fund revenues decreased by \$3.8 million. The City maintains AAA rating with Fitch Ratings, Inc. and AA+ rating with Standard & Poor's on tax-supported debt.

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

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

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

Capital Asset and Debt Administration (continued)

Long-Term Debt (continued)

The Constitution and Statutes of the State of Texas and the Charter of the City of Midland do not provide for a legal debt limit. However, the 8% debt limit rate used to calculate debt margin of \$695.5 million has been adopted by the City Council as a safe debt limit.

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

Pensions

Effective for fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" created specific reporting requirements for pensions differing from those used for funding purposes. The reporting valuation provides a rigorous standard measure that can be used to compare the City's pension liabilities to other governments. The financial statements including the first schedule of Required Supplementary Information (RSI), Schedule of Changes in Net Pension Liability and Related Ratios, are based on the reporting valuation. The second schedule in the RSI, Schedule of Contributions, is based on the funding valuation. It includes actuarial methods and assumptions used to determine contribution rates and the City's history of making contributions. On a reporting basis, the City's financial statements reflect a Net Pension Liability as of September 30, 2015 of \$69.7 million.

Economic Factors and Next Year's Budgets and Rates

Midland's local economy is adjusting due to changes in the oil industry. The population increase has slowed due to a decline in energy prices, however manufacturing, hospitality and other business service areas stayed strong to help balance the decrease in the decline of oilfield related jobs.

The budgetary process for Fiscal Year 2016 focused on the allocation of limited resources to maintenance of the current level of City services. The budget presented for all City operations for the 2016 fiscal year totals \$254.6 million. This is a 1.2% decrease from the fiscal year 2015 modified budget of \$257.6 million.

The fiscal year 2016 operating budget is supported by combined revenues of \$226.6 million, up \$1.7 million from budgeted Fiscal Year 2015. The combined property tax rate is 38.0480 cents per \$100 valuation, compared with a rate of 39.3891 in fiscal year 2015, a 3.4% decrease. Property tax revenue, however, will increase from last year's budget by \$2,721,700, or 6.67%. The property tax revenue to be raised from new property added to the tax roll this year is \$1,563,137. Another major revenue source, sales tax receipts is budgeted at \$39.9 million, a decrease of \$2.3 million when compared to fiscal year 2015. Water and sewer revenues are estimated to increase by 2.75% from budgeted fiscal year 2015 due to a 5% increase in water and sewer rates on October 1.

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Request for Information

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

CITY OF MIDLAND, TEXAS
Statement of Net Position
September 30, 2015

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	Sports Complex Development	Spaceport Development	Midland Development Corporation
ASSETS						
Cash and cash equivalents	\$ 72,200,209	\$ 86,900,049	\$ 159,100,258	\$ -	\$ -	\$ 27,575,238
Investments	33,599,477	26,491,045	60,090,522	-	-	-
Receivables (net of allowance for uncollectibles)	10,758,506	11,268,536	22,027,042	1,672,129	-	1,676,374
Interest receivable	125,747	100,019	225,766	-	-	-
Due from component unit	-	1,672,129	1,672,129	-	-	-
Due from primary government	-	-	-	-	-	6,162,497
Internal balances	(2,430,476)	2,430,476	-	-	-	-
Inventories	422,402	431,190	853,592	-	-	-
Prepaid items and other assets	85,680	89,872	175,552	-	-	-
Notes receivable	-	527,516	527,516	-	-	1,806,579
Leases receivable	-	437,100	437,100	-	-	-
Restricted assets:						
Cash and cash equivalents	30,249,207	8,916,962	39,166,169	-	-	-
Investments	6,770,611	3,131,327	9,901,938	-	-	-
Interest receivable	24,343	2,483	26,826	-	-	-
Accounts receivable	-	169,154	169,154	-	-	-
Capital assets not being depreciated:						
Land	6,919,768	14,413,210	21,332,978	-	-	4,424,753
Construction in progress	8,809,494	10,106,013	18,915,507	-	-	5,956,644
Capital assets net of accumulated depreciation:						
Buildings	21,488,982	33,092,944	54,581,926	-	-	1,789,782
Improvements other than buildings	15,599,827	50,301,273	65,901,100	-	-	113,288
Machinery and equipment	32,043,845	3,477,466	35,521,311	-	-	11,355
Infrastructure	81,050,422	418,297,541	499,347,963	-	-	388,666
Intangible and other	1,564,182	1,658,918	3,223,100	-	-	-
Total assets	<u>319,282,226</u>	<u>673,915,223</u>	<u>993,197,449</u>	<u>1,672,129</u>	<u>-</u>	<u>49,905,176</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charges on refundings	14,864	632,834	647,698	-	-	-
Pension contributions after measurement date	7,168,657	1,090,993	8,259,650	-	-	-
Difference in projected and actual earnings on pension assets	4,986,247	528,074	5,514,321	-	-	-
Difference in expected and actual pension experience	1,332,709	344,921	1,677,630	-	-	-
Total deferred outflows of resources	<u>13,502,477</u>	<u>2,596,822</u>	<u>16,099,299</u>	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES						
Accounts payable and other current liabilities	15,418,849	13,260,447	28,679,296	-	-	850,624
Customer deposits	-	3,145,076	3,145,076	-	-	-
Accrued interest payable	184,259	295,300	479,559	-	-	-
Due to primary government	-	-	-	1,672,129	-	-
Due to component unit	4,737,497	1,425,000	6,162,497	-	-	-
Unearned revenue	153,237	236,891	390,128	-	-	-
Liabilities payable from restricted assets	-	326,922	326,922	-	-	-
Noncurrent liabilities:						
Due within one year:						
Compensated absences	3,914,763	504,788	4,419,551	-	-	66,310
Bonds, leases and notes payable	3,810,034	6,477,503	10,287,537	-	-	-
Self-insurance liability	1,341,736	-	1,341,736	-	-	-
Due in more than one year:						
Compensated absences	1,615,745	219,408	1,835,153	-	-	18,237
Other postemployment benefits	22,259,416	4,143,147	26,402,563	-	-	-
Bonds, leases and notes payable	52,434,830	303,942,954	356,377,784	-	-	385,790
Self-insurance liability	2,781,965	-	2,781,965	-	-	-
Landfill closure/postclosure care	-	13,859,479	13,859,479	-	-	-
Net pension liability	64,053,431	5,646,869	69,700,300	-	-	-
Total liabilities	<u>172,705,762</u>	<u>353,483,784</u>	<u>526,189,546</u>	<u>1,672,129</u>	<u>-</u>	<u>1,320,961</u>
DEFERRED INFLOWS OF RESOURCES						
	-	-	-	-	-	-
NET POSITION						
Net investment in capital assets	130,732,360	222,043,318	352,775,678	-	-	12,684,488
Restricted for:						
Debt service	594,165	3,837,958	4,432,123	-	-	-
Public safety	1,030,982	-	1,030,982	-	-	-
Court	1,072,799	-	1,072,799	-	-	-
Buildings and renovations	2,775,441	-	2,775,441	-	-	-
Parks and recreation	3,369	-	3,369	-	-	-
Promotion of tourism and convention	14,698,959	-	14,698,959	-	-	-
Passenger facility improvements	-	4,052,727	4,052,727	-	-	-
Other purposes	50,355	-	50,355	-	-	18,730,837
Unrestricted	9,120,511	93,094,258	102,214,769	-	-	17,168,890
Total net position	<u>\$ 160,078,941</u>	<u>\$ 323,028,261</u>	<u>\$ 483,107,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,584,215</u>

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

CITY OF MIDLAND, TEXAS
Statement of Activities
For the Year Ended September 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position						
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units			
					Governmental Activities	Business-type Activities	Total	Sports Complex Development	Spaceport Development	Midland Development Corporation	
Primary government:											
Governmental activities:											
General government:											
Administration	\$ 1,795,890	\$ 429,377	\$ -	\$ -	\$ (1,366,513)	\$ -	\$ (1,366,513)	\$ -	\$ -	\$ -	\$ -
Support services	14,145,875	319,559	-	5,400,000	(8,426,316)	-	(8,426,316)	-	-	-	-
Fiscal management	2,057,766	65,587	-	-	(1,992,179)	-	(1,992,179)	-	-	-	-
Other	10,717,852	-	-	-	(10,717,852)	-	(10,717,852)	-	-	-	-
Development services	4,017,284	3,282,596	563,831	-	(170,857)	-	(170,857)	-	-	-	-
Engineering	16,352,355	938,852	-	7,298,076	(8,115,427)	-	(8,115,427)	-	-	-	-
Community services	12,116,060	1,820,759	481,489	200,000	(9,613,812)	-	(9,613,812)	-	-	-	-
Police	25,392,403	3,848,647	296,700	299,938	(20,947,118)	-	(20,947,118)	-	-	-	-
Fire	28,683,479	1,816,971	42,209	305,000	(26,519,299)	-	(26,519,299)	-	-	-	-
Interest on long-term debt	1,817,804	-	-	-	(1,817,804)	-	(1,817,804)	-	-	-	-
Total governmental activities	<u>117,096,768</u>	<u>12,522,348</u>	<u>1,384,229</u>	<u>13,503,014</u>	<u>(89,687,177)</u>	<u>-</u>	<u>(89,687,177)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activities:											
Airport	10,327,231	12,515,637	5,649	621,705	-	2,815,760	2,815,760	-	-	-	-
Water and sewer	64,163,946	58,094,221	-	6,289,163	-	219,438	219,438	-	-	-	-
Sanitation	10,927,308	16,152,502	-	-	-	5,225,194	5,225,194	-	-	-	-
Sports complex	4,289,430	11,901,462	-	-	-	7,612,032	7,612,032	-	-	-	-
Golf course	2,519,117	2,152,681	-	-	-	(366,436)	(366,436)	-	-	-	-
Total business-type activities	<u>92,227,032</u>	<u>100,816,503</u>	<u>5,649</u>	<u>6,910,868</u>	<u>-</u>	<u>15,505,988</u>	<u>15,505,988</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 209,323,800</u>	<u>\$ 113,338,851</u>	<u>\$ 1,389,878</u>	<u>\$ 20,413,882</u>	<u>\$ (89,687,177)</u>	<u>\$ 15,505,988</u>	<u>\$ (74,181,189)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Component units:											
Sports Complex Development Corporation	\$ 10,751,347	\$ -	\$ 15,700	\$ -	\$ -	\$ -	\$ -	\$ (10,735,647)	\$ -	\$ -	\$ -
Spaceport Development Corporation	74,679	-	74,679	-	-	-	-	-	-	-	-
Midland Economic Development Corporation	9,709,093	-	-	-	-	-	-	-	-	-	(9,709,093)
Total component units	<u>\$ 20,535,119</u>	<u>\$ -</u>	<u>\$ 90,379</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,735,647)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,709,093)</u>
General revenues:											
Property taxes					40,961,787	-	40,961,787	-	-	-	-
Sales taxes					42,942,587	-	42,942,587	10,735,647	-	-	10,735,647
Gross receipts taxes					13,600,947	-	13,600,947	-	-	-	-
Hotel-motel taxes					7,835,435	-	7,835,435	-	-	-	-
Other taxes					857,243	-	857,243	-	-	-	-
Unrestricted investment earnings					2,116,971	1,412,725	3,529,696	-	-	-	7,677
Miscellaneous					-	-	-	-	-	-	8,966
Transfers					3,353,816	(3,353,816)	-	-	-	-	-
Total general revenues and transfers					<u>111,668,786</u>	<u>(1,941,091)</u>	<u>109,727,695</u>	<u>10,735,647</u>	<u>-</u>	<u>-</u>	<u>10,752,290</u>
Change in net position					<u>21,981,609</u>	<u>13,564,897</u>	<u>35,546,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,043,197</u>
Net position – beginning, as previously reported					187,422,389	313,373,888	500,796,277	-	-	-	47,541,018
Prior period adjustment (See Note 1.O.)					(49,325,057)	(3,910,524)	(53,235,581)	-	-	-	-
Net position – beginning, as restated					<u>138,097,332</u>	<u>309,463,364</u>	<u>447,560,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,541,018</u>
Net position – ending					<u>\$ 160,078,941</u>	<u>\$ 323,028,261</u>	<u>\$ 483,107,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,584,215</u>

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

CITY OF MIDLAND, TEXAS
Balance Sheet
Governmental Funds
September 30, 2015

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 52,974,733	\$ 507,615	\$ 34,230,346	\$ 87,712,694
Investments	26,437,309	252,198	8,849,944	35,539,451
Receivables (net of allowance for uncollectibles):				
Interest receivable	105,778	1,636	27,666	135,080
Property taxes	511,914	111,026	-	622,940
Sales taxes	6,688,518	-	-	6,688,518
Accounts receivable	1,528,942	2,653	1,146,901	2,678,496
Assessments receivable	509,058	-	-	509,058
Intergovernmental receivable	155,979	-	183,334	339,313
Prepaid items and other assets	65,680	-	-	65,680
Due from other funds	64,865	-	-	64,865
Advances to other funds	817,813	-	-	817,813
	<u>\$ 89,860,589</u>	<u>\$ 875,128</u>	<u>\$ 44,438,191</u>	<u>\$ 135,173,908</u>
Total assets				
Liabilities:				
Accounts payable	\$ 4,102,524	\$ -	\$ 1,527,903	\$ 5,630,427
Accrued payroll	4,323,308	-	-	4,323,308
Retainage payable	441,525	-	461,007	902,532
Due to other funds	-	-	64,865	64,865
Due to component unit	4,737,497	-	-	4,737,497
Unearned revenue	135,505	-	17,732	153,237
Other liabilities	2,856,649	-	70	2,856,719
Total liabilities	<u>16,597,008</u>	<u>-</u>	<u>2,071,577</u>	<u>18,668,585</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	<u>2,130,750</u>	<u>96,704</u>	<u>977,020</u>	<u>3,204,474</u>
Fund balances:				
Nonspendable:				
Prepayments	65,680	-	-	65,680
Advances	817,813	-	-	817,813
Restricted for:				
Debt service	-	778,424	-	778,424
Public safety	2,297	-	1,028,685	1,030,982
Court	201,783	-	871,016	1,072,799
Communications	-	-	2,566,617	2,566,617
Downtown	-	-	586,906	586,906
Buildings and renovations	-	-	7,233,415	7,233,415
Streets and drainage	-	-	7,421,290	7,421,290
Parks and recreation	-	-	1,130,029	1,130,029
Other purposes	-	-	14,749,314	14,749,314
Committed to:				
Buildings and renovations	11,527,229	-	43,441	11,570,670
Streets and drainage	7,559,255	-	4,168,125	11,727,380
Parks and recreation	1,071,713	-	-	1,071,713
Public safety	660,436	-	-	660,436
Technology	746,803	-	-	746,803
Traffic	327,309	-	-	327,309
Other Purposes	406,038	-	1,590,756	1,996,794
Assigned to:				
Streets and drainage	89,054	-	-	89,054
Unassigned:				
General fund	47,657,421	-	-	47,657,421
Total fund balances	<u>71,132,831</u>	<u>778,424</u>	<u>41,389,594</u>	<u>113,300,849</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 89,860,589</u>	<u>\$ 875,128</u>	<u>\$ 44,438,191</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		144,514,077
Deferred outflows represent a consumption of net position that applies to future periods and therefore will not be recognized as an outflow or resources until then. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.		14,864
Deferred outflows related to pensions (excluding internal service listed below)		13,174,978
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources.		(250,000)
Internal service funds are used by management to charge the costs of fleet management and self-insurance costs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position (net of amount allocated to business-type activities of \$5,449,479)		
Cash	\$ 14,736,722	
Investments	4,830,637	
Receivables	185,191	
Capital assets net of depreciation	22,962,443	
Internal balances	(3,248,289)	
Other assets	442,402	
Deferred outflows related to pensions	312,635	
Current liabilities	(1,705,863)	
Noncurrent liabilities	(5,950,621)	32,565,257
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(146,445,558)
Unavailable revenue		3,204,474
Net position of governmental activities		<u>\$ 160,078,941</u>

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

CITY OF MIDLAND, TEXAS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 35,332,634	\$ 5,809,625	\$ -	\$ 41,142,259
Sales	42,942,587	-	-	42,942,587
Gross receipts	13,600,947	-	-	13,600,947
Mixed beverage	731,961	-	-	731,961
Hotel-motel	-	-	7,835,435	7,835,435
Miscellaneous	125,282	-	-	125,282
Licenses and permits	3,569,903	-	922,197	4,492,100
Fines and forfeitures	3,349,255	-	-	3,349,255
Charges for services	3,182,358	-	-	3,182,358
Rentals	14,144	-	255,147	269,291
Assessments	-	-	106,961	106,961
Intergovernmental	1,071,450	-	466,531	1,537,981
Investment earnings:				
Interest income	809,590	14,301	217,168	1,041,059
Net increase in the fair value of investments	1,010,351	13,313	271,598	1,295,262
Contributions and donations	583,401	-	-	583,401
Miscellaneous	440,943	-	376,872	817,815
Total revenues	<u>106,764,806</u>	<u>5,837,239</u>	<u>10,451,909</u>	<u>123,053,954</u>
EXPENDITURES				
Current:				
General government:				
Administration	1,744,680	-	-	1,744,680
Support services	16,392,321	-	-	16,392,321
Fiscal management	2,079,315	-	-	2,079,315
Development services	3,555,322	-	-	3,555,322
Engineering	17,431,031	-	-	17,431,031
Community services	12,346,085	-	-	12,346,085
Police	25,308,241	-	-	25,308,241
Fire	26,254,173	-	-	26,254,173
Other	3,977,125	-	6,982,212	10,959,337
Debt service:				
Principal	-	2,849,650	-	2,849,650
Interest	-	2,838,210	-	2,838,210
Paying agents' fees	-	1,631	-	1,631
Capital outlay	-	-	14,245,722	14,245,722
Total expenditures	<u>109,088,293</u>	<u>5,689,491</u>	<u>21,227,934</u>	<u>136,005,718</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,323,487)</u>	<u>147,748</u>	<u>(10,776,025)</u>	<u>(12,951,764)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	4,566,344	106,585	-	4,672,929
Transfers out	(751,830)	-	(66,335)	(818,165)
Total other financing sources (uses)	<u>3,814,514</u>	<u>106,585</u>	<u>(66,335)</u>	<u>3,854,764</u>
Net change in fund balances	<u>1,491,027</u>	<u>254,333</u>	<u>(10,842,360)</u>	<u>(9,097,000)</u>
Fund balances – beginning	69,641,804	524,091	52,231,954	122,397,849
Fund balances – ending	<u>\$ 71,132,831</u>	<u>\$ 778,424</u>	<u>\$ 41,389,594</u>	<u>\$ 113,300,849</u>

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

CITY OF MIDLAND, TEXAS
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2015

Amounts reported for governmental activities in the statement of activities (page 27) are different because:

Net change in fund balances—total governmental funds (page 29)		\$ (9,097,000)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		17,072,168
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.		12,684,051
Governmental funds report investment in joint venture as an expenditure. However, in the statement of activities, the equity interest is treated as an asset.		(69,864)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (i.e., earned but unavailable revenues).		(294,064)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		3,871,687
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(48,473)	
Other postemployment benefits	(1,460,388)	
Pension costs, net	<u>(1,259,808)</u>	(2,768,669)
Internal service funds are used by management to charge the costs of the garage, warehouse and three self-insurance funds to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		<u>583,300</u>
Change in net position of governmental activities (page 27)		\$ <u>21,981,609</u>

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

CITY OF MIDLAND, TEXAS
Statement of Net Position
Proprietary Funds
September 30, 2015

	Business-Type Activities—Enterprise Funds					Totals	Governmental Activities— Internal Service Funds
	Airport Fund	Water and Sewer Fund	Sanitation Fund	Scharbauer Sports Complex Fund	Nonmajor Fund		
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 5,825,825	\$ 31,972,208	\$ 12,940,464	\$ 34,390,517	\$ 1,333,417	\$ 86,462,431	\$ 15,174,340
Investments	2,862,955	15,798,806	6,375,757	672,702	572,094	26,282,314	5,039,368
Interest receivable	10,838	60,323	22,756	3,095	2,410	99,422	15,607
Accounts receivable (net of allowance for uncollectibles)	20,525	10,190,885	843,233	190,531	23,362	11,268,536	170,181
Notes receivable	-	-	-	-	-	-	102,000
Inventories	-	-	-	-	219,169	219,169	634,423
Prepaid items and other assets	-	79,654	-	10,218	-	89,872	20,001
Due from component unit	-	-	-	1,672,129	-	1,672,129	-
Restricted assets:							
Passenger Facility Charge:							
Cash and cash equivalents	3,545,991	-	-	-	-	3,545,991	-
Investments	662,021	-	-	-	-	662,021	-
Interest Receivable	2,483	-	-	-	-	2,483	-
Accounts Receivable	169,154	-	-	-	-	169,154	-
Customer deposits:							
Cash and cash equivalents	-	2,101,394	-	-	-	2,101,394	-
Investments	-	1,043,662	-	-	-	1,043,662	-
Bond construction fund:							
Cash and cash equivalents	-	824,674	-	-	4,527	829,201	-
Investments	-	25,784	-	-	2,278	28,062	-
Bond debt service:							
Cash and cash equivalents	622,344	876,711	-	927,350	13,971	2,440,376	-
Investments	319,256	603,212	-	426,460	48,654	1,397,582	-
Total current assets	14,041,392	63,577,313	20,182,210	38,293,002	2,219,882	138,313,799	21,155,920
Noncurrent assets:							
Capital assets:							
Land	1,571,906	13,331,122	-	227,240	-	15,130,268	45,541
Buildings	51,462,868	1,426,033	283,543	2,294,951	441,375	55,908,770	1,816,924
Improvements other than buildings	8,135,160	16,480,627	20,487,709	47,084,774	6,512,980	98,701,250	861,592
Infrastructure	93,623,552	472,057,701	-	-	-	565,681,253	-
Machinery and equipment	5,455,001	3,211,832	506,841	2,575,271	6,272	11,755,217	53,897,299
Intangible and Other	1,867,836	2,281,741	217,971	-	16,372	4,383,920	4,774,223
Construction in progress	2,402,469	4,205,603	3,413,639	84,302	-	10,106,013	-
Less accumulated depreciation	(83,563,117)	(105,886,351)	(15,148,665)	(22,613,615)	(3,528,884)	(230,740,632)	(38,011,830)
Total capital assets (net of accumulated depreciation)	80,955,675	407,108,308	9,761,038	29,652,923	3,448,115	530,926,059	23,383,749
Other noncurrent assets:							
Notes receivable	-	527,516	-	-	-	527,516	915,273
Lease receivable	437,100	-	-	-	-	437,100	-
Total noncurrent assets	81,392,775	407,635,824	9,761,038	29,652,923	3,448,115	531,890,675	24,299,022
Total assets	95,434,167	471,213,137	29,943,248	67,945,925	5,667,997	670,204,474	45,454,942

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refunding	3,432	2,119	-	627,261	22	632,834	-
Pension contributions after measurement date	187,332	512,815	316,744	-	66,141	1,083,032	181,748
Difference in projected and actual earnings on pension assets	90,667	248,113	153,336	-	32,106	524,222	87,841
Difference in expected and actual pension experience	59,220	162,059	100,155	-	20,970	342,404	57,375
Total deferred outflows of resources	<u>340,651</u>	<u>925,106</u>	<u>570,235</u>	<u>627,261</u>	<u>119,239</u>	<u>2,582,492</u>	<u>326,964</u>

LIABILITIES

Current liabilities:

Accounts payable	567,130	8,816,421	1,205,273	209,621	176,802	10,975,247	1,591,046
Accrued payroll	139,617	419,035	218,107	-	52,412	829,171	130,201
Retainage payable	71,237	414,333	105,441	-	-	591,011	-
Due to component unit	-	1,425,000	-	-	-	1,425,000	-
Customer deposits	-	3,145,076	-	-	-	3,145,076	-
General obligation bonds payable							
from unrestricted assets	668,750	-	-	922,917	14,697	1,606,364	-
Premium on debt	3,307	146,532	-	70,219	17,173	237,231	-
Certificates of obligation payable							
from unrestricted assets	-	1,066,250	-	-	25,000	1,091,250	-
Notes payable	-	-	-	-	102,000	102,000	-
Compensated absences	143,748	199,019	98,991	-	54,141	495,899	75,784
Estimated unpaid claims	-	-	-	-	-	-	1,341,736
Unearned revenue	-	-	90,010	25,000	121,881	236,891	-
Other liabilities	32,142	480,875	321,157	-	8,983	843,157	6,477

Current liabilities payable from restricted assets:

Accrued interest payable	5,350	221,173	-	61,727	7,050	295,300	-
Passenger Facility Improvement payable	326,922	-	-	-	-	326,922	-
General obligation bonds payable	936,250	-	-	1,292,083	20,575	2,248,908	-
Certificates of obligation payable	-	1,258,750	-	-	35,000	1,293,750	-
Total current liabilities	<u>2,894,453</u>	<u>17,592,464</u>	<u>2,038,979</u>	<u>2,581,567</u>	<u>635,714</u>	<u>25,743,177</u>	<u>3,145,244</u>

Noncurrent liabilities:

General obligation bonds payable	-	-	-	13,620,000	-	13,620,000	-
Premium on debt	-	1,526,430	-	177,701	170,820	1,874,951	-
Certificates of obligation payable	-	54,660,000	-	-	1,729,310	56,389,310	-
Capital lease obligations payable	-	232,058,693	-	-	-	232,058,693	-
Net pension liability	1,075,369	2,555,268	1,634,065	-	337,979	5,602,681	1,025,141
Compensated absences	55,383	90,903	32,368	-	33,239	211,893	47,248
Other postemployment benefits payable	731,597	2,037,757	1,117,715	-	227,845	4,114,914	767,572
Estimated unpaid claims	-	-	-	-	-	-	2,781,965
Notes payable	-	-	-	-	915,273	915,273	-
Advances from other funds	-	-	-	-	817,813	817,813	-
Landfill closure/postclosure care	-	-	13,859,479	-	-	13,859,479	-
Total noncurrent liabilities	<u>1,862,349</u>	<u>292,929,051</u>	<u>16,643,627</u>	<u>13,797,701</u>	<u>4,232,279</u>	<u>329,465,007</u>	<u>4,621,926</u>
Total liabilities	<u>4,756,802</u>	<u>310,521,515</u>	<u>18,682,606</u>	<u>16,379,268</u>	<u>4,867,993</u>	<u>355,208,184</u>	<u>7,767,170</u>

NET POSITION

Net investment in capital assets	79,350,800	116,870,542	9,761,038	14,197,264	1,442,368	221,622,012	23,383,749
Restricted for passenger facility improvements	4,052,727	-	-	-	-	4,052,727	-
Restricted for debt service	941,600	1,479,923	-	1,353,810	62,625	3,837,958	-
Unrestricted	6,672,889	43,266,263	2,069,839	36,642,844	(585,750)	88,066,085	14,630,987
Total net position	<u>\$ 91,018,016</u>	<u>\$ 161,616,728</u>	<u>\$ 11,830,877</u>	<u>\$ 52,193,918</u>	<u>\$ 919,243</u>	<u>317,578,782</u>	<u>\$ 38,014,736</u>

Reconciliation to government-wide statement of net position:

Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.

5,449,479

Net position of business-type activities

\$ 323,028,261

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

CITY OF MIDLAND, TEXAS
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2015

Business-Type Activities—Enterprise Funds

	<u>Airport Fund</u>	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Scharbauer Sports Complex Fund</u>	<u>Nonmajor Fund</u>	<u>Totals</u>	<u>Governmental Activities— Internal Service Funds</u>
Operating revenues:							
International Airport parking revenues	\$ 3,923,015	\$ -	\$ -	\$ -	\$ -	\$ 3,923,015	\$ -
International Airport building rentals	4,312,874	-	-	-	-	4,312,874	-
International Airport aviation rentals	431,819	-	-	-	-	431,819	-
International Airport landing fees	527,521	-	-	-	-	527,521	-
International Airport commercial rentals	150,066	-	-	-	-	150,066	-
International Airport fuel and oil commissions	88,955	-	-	-	-	88,955	-
Airpark rentals	136,204	-	-	-	-	136,204	-
Airpark fuel and oil commissions	21,832	-	-	-	-	21,832	-
Water sales	-	42,865,547	-	-	-	42,865,547	-
Sewer charges	-	13,012,975	-	-	-	13,012,975	-
Tap installations and service charges	-	257,168	-	-	-	257,168	-
Garbage collection fees	-	-	15,933,706	-	-	15,933,706	-
Penalties	-	570,482	106,855	-	-	677,337	-
Course usage fees	-	-	-	-	691,049	691,049	-
Golf cart fees	-	-	-	-	474,755	474,755	-
Pro shop rentals	-	-	-	-	13,807	13,807	-
Pro shop sales	-	-	-	-	688,058	688,058	-
Tournament fees	-	-	-	-	29,289	29,289	-
Snack bar concession rentals	-	-	-	-	38,362	38,362	-
Football-soccer stadium	-	-	-	488,662	-	488,662	-
Baseball stadium	-	-	-	456,893	-	456,893	-
Common areas	-	-	-	146,858	-	146,858	-
Billings to other funds	-	-	-	-	-	-	12,845,283
Motor vehicle repair billings	-	-	-	-	-	-	3,899,706
Motor vehicle lease charges	-	-	-	-	-	-	5,873,492
Equipment lease—other	-	-	-	-	-	-	130,895
Charges for fuel	-	-	-	-	-	-	2,081,942
Employee payments	-	-	-	-	-	-	2,356,809
Miscellaneous	101,183	174,206	-	-	15,000	290,389	-
Total operating revenues	<u>9,693,469</u>	<u>56,880,378</u>	<u>16,040,561</u>	<u>1,092,413</u>	<u>1,950,320</u>	<u>85,657,141</u>	<u>27,188,127</u>
Operating expenses:							
Cost of goods sold	-	-	-	-	480,868	480,868	1,821,266
Salaries and fringe benefits	2,168,268	5,912,909	3,629,061	-	759,730	12,469,968	2,110,328
Contractual services	2,104,835	24,248,801	5,272,695	933,388	690,194	33,249,913	4,953,598
Maintenance of structure	210,415	1,124,146	24,998	363,173	96,595	1,819,327	69,272
Maintenance of equipment	90,981	564,050	10,674	71,398	13,195	750,298	1,872,017
Payment of claims	-	-	-	-	-	-	8,168,481
Franchise fees	-	3,527,560	614,960	-	-	4,142,520	-
Depreciation	5,267,739	12,585,954	708,287	1,860,999	290,023	20,713,002	4,549,274
Closure and postclosure care	-	-	281,176	-	-	281,176	-
Supplies	200,480	2,554,046	125,849	29,805	133,134	3,043,314	3,338,837
Other expenses	174,989	114,237	186,394	98,000	-	573,620	130,566
Total operating expenses	<u>10,217,707</u>	<u>50,631,703</u>	<u>10,854,094</u>	<u>3,356,763</u>	<u>2,463,739</u>	<u>77,524,006</u>	<u>27,013,639</u>
Operating income (loss)	<u>(524,238)</u>	<u>6,248,675</u>	<u>5,186,467</u>	<u>(2,264,350)</u>	<u>(513,419)</u>	<u>8,133,135</u>	<u>174,488</u>

Nonoperating revenues (expenses):							
Investment income:							
Interest income	82,081	396,247	140,749	43,929	14,895	677,901	152,603
Net increase in the fair value of investments	111,571	513,498	195,773	41,962	9,469	872,273	147,776
Interest expense	(97,379)	(13,541,594)	-	(910,128)	(96,572)	(14,645,673)	-
Rentals	-	206,357	-	-	-	206,357	-
Water royalties	66,320	-	-	-	-	66,320	-
Intergovernmental grants	5,649	-	-	-	-	5,649	-
Gain on sale of capital assets	-	-	-	-	-	-	376,614
Recoveries of damages to City property	-	-	-	-	-	-	52,499
Passenger facility charge revenues	1,999,243	-	-	-	-	1,999,243	-
Player facility charge revenues	-	-	-	-	190,611	190,611	-
SCDC construction contract revenue	-	-	-	10,735,647	-	10,735,647	-
Other	705,399	972,755	111,941	16,430	8,693	1,815,218	86,254
Total nonoperating revenues	<u>2,872,884</u>	<u>(11,452,737)</u>	<u>448,463</u>	<u>9,927,840</u>	<u>127,096</u>	<u>1,923,546</u>	<u>815,746</u>
Income before contributions and transfers	<u>2,348,646</u>	<u>(5,204,062)</u>	<u>5,634,930</u>	<u>7,663,490</u>	<u>(386,323)</u>	<u>10,056,681</u>	<u>990,234</u>
Capital contributions	621,705	6,289,163	-	-	-	6,910,868	45,178
Transfers in	-	67,433	-	684,397	-	751,830	-
Transfers out	<u>(1,600,000)</u>	<u>(1,209,427)</u>	<u>(639,896)</u>	<u>(511,451)</u>	<u>(125,309)</u>	<u>(4,086,083)</u>	<u>(520,511)</u>
Change in net position	1,370,351	(56,893)	4,995,034	7,836,436	(511,632)	13,633,296	514,901
Total net position - beginning, as previously reported	<u>90,402,334</u>	<u>\$ 163,433,609</u>	<u>\$ 7,967,092</u>	<u>\$ 44,357,482</u>	<u>\$ 1,664,442</u>	<u>307,824,959</u>	<u>38,218,251</u>
Prior period adjustment (See Note 1.O.)	<u>(754,669)</u>	<u>(1,759,988)</u>	<u>(1,131,249)</u>	<u>-</u>	<u>(233,567)</u>	<u>(3,879,473)</u>	<u>(718,416)</u>
Total net position – beginning, as restated	89,647,665	161,673,621	6,835,843	44,357,482	1,430,875		37,499,835
Total net position – ending	<u>\$ 91,018,016</u>	<u>\$ 161,616,728</u>	<u>\$ 11,830,877</u>	<u>\$ 52,193,918</u>	<u>\$ 919,243</u>		<u>\$ 38,014,736</u>

Reconciliation to government-wide statements of activities:

Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.

(68,399)

Change in net position of business-type activities

\$ 13,564,897

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

CITY OF MIDLAND, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Year ended September 30, 2015

Business-Type Activities—Enterprise Funds

	Airport Fund	Water and Sewer Fund	Sanitation Fund	Scharbauer Sports Complex Fund	Nonmajor Fund	Total	Governmental Activities— Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users	\$ 9,856,547	\$ 55,329,238	\$ 15,918,423	\$ 992,987	\$ 1,938,188	\$ 84,035,383	\$ 2,415,115
Receipts from interfund services provided	66,320	-	-	-	-	66,320	24,869,439
Payments to suppliers	(2,295,048)	(27,101,783)	(5,122,540)	(1,399,397)	(2,068,545)	(37,987,313)	(19,156,379)
Payments to employees	(2,152,931)	(5,810,667)	(3,538,311)	-	(738,903)	(12,240,812)	(2,074,682)
Payments for interfund services used	-	(66,320)	-	-	-	(66,320)	-
Receipts from other operating revenues	268,299	1,179,112	111,941	16,430	8,693	1,584,475	-
Net cash provided (used) by operating activities	<u>5,743,187</u>	<u>23,529,580</u>	<u>7,369,513</u>	<u>(389,980)</u>	<u>(860,567)</u>	<u>35,391,733</u>	<u>6,053,493</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Grants and contributions	5,649	-	-	-	-	5,649	-
Transfers from other funds	-	67,433	-	684,397	-	751,830	-
Transfers to other funds	(1,600,000)	(1,209,427)	(639,896)	(511,451)	(125,309)	(4,086,083)	(520,511)
Repayment of advances from other funds	-	-	-	-	(17,895)	(17,895)	-
Net cash provided (used) by noncapital financing activities	<u>(1,594,351)</u>	<u>(1,141,994)</u>	<u>(639,896)</u>	<u>172,946</u>	<u>(143,204)</u>	<u>(3,346,499)</u>	<u>(520,511)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Capital contributions	621,705	-	-	-	-	621,705	-
Acquisition and construction of capital assets	(5,003,573)	(2,978,846)	(3,380,912)	(1,551,929)	(345,410)	(13,260,670)	(7,294,807)
Principal paid on capital debt and notes payable	(1,535,000)	(2,230,000)	-	(2,110,000)	(50,350)	(5,925,350)	-
Repayment of loans to other funds	-	-	-	-	(98,482)	(98,482)	98,482
Repayment of loans to component unit	-	(1,000,000)	-	-	-	(1,000,000)	-
Interest and fees paid on capital debt and notes payable	(103,325)	(11,275,401)	-	(794,228)	(167,468)	(12,340,422)	-
Proceeds from sales of capital assets	-	-	-	-	-	-	539,167
Passenger facility charge revenues	1,999,243	-	-	-	-	1,999,243	-
Player facility charge revenues	-	-	-	-	190,611	190,611	-
SCDC contract revenue	-	-	-	11,143,936	-	11,143,936	-
Net cash provided (used) by capital and related financing activities	<u>(4,020,950)</u>	<u>(17,484,247)</u>	<u>(3,380,912)</u>	<u>6,687,779</u>	<u>(471,099)</u>	<u>(18,669,429)</u>	<u>(6,657,158)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(942,549)	(4,005,451)	(1,772,783)	(91,565)	-	(6,812,348)	(596,682)
Proceeds from maturities of investments	1,988,158	9,226,566	3,153,839	690,379	836,302	15,895,244	4,151,299
Interest received	193,983	914,276	335,569	88,606	25,892	1,558,326	305,845
Net cash provided by investing activities	<u>1,239,592</u>	<u>6,135,391</u>	<u>1,716,625</u>	<u>687,420</u>	<u>862,194</u>	<u>10,641,222</u>	<u>3,860,462</u>
Net increase (decrease) in cash and cash equivalents	1,367,478	11,038,730	5,065,330	7,158,165	(612,676)	24,017,027	2,736,286
Cash and cash equivalents at beginning of year	<u>8,626,682</u>	<u>24,736,257</u>	<u>7,875,134</u>	<u>28,159,702</u>	<u>1,964,591</u>	<u>71,362,366</u>	<u>12,438,054</u>
Cash and cash equivalents at end of year	<u>\$ 9,994,160</u>	<u>\$ 35,774,987</u>	<u>\$ 12,940,464</u>	<u>\$ 35,317,867</u>	<u>\$ 1,351,915</u>	<u>\$ 95,379,393</u>	<u>\$ 15,174,340</u>

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income (loss)	<u>\$ (524,238)</u>	<u>\$ 6,248,675</u>	<u>\$ 5,186,467</u>	<u>\$ (2,264,350)</u>	<u>\$ (513,419)</u>	<u>\$ 8,133,135</u>	<u>\$ 174,488</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation expense	5,267,739	12,585,954	708,287	1,860,999	290,023	20,713,002	4,549,274
Other income	334,619	1,179,112	111,941	16,430	8,693	1,650,795	138,753
Change in assets and liabilities:							
(Increase) decrease in accounts receivable	164,554	(1,791,286)	(247,704)	(99,426)	(3,513)	(1,977,375)	(42,326)
Increase in inventories	-	-	-	-	(21,265)	(21,265)	(18,271)
(Increase)/decrease in prepaid items and other assets	-	(58,903)	-	(10,218)	11,933	(57,188)	(1)
Decrease in public improvement district	-	17,472	-	-	-	17,472	-
Increase in deferred pension	(132,816)	(445,960)	(264,104)	-	(55,987)	(898,867)	(132,913)
Increase (decrease) in accounts payable	592,724	5,091,878	1,007,589	110,667	(568,512)	6,234,346	258,245
Increase in salaries and benefits payable	21,714	135,733	61,062	-	15,872	234,381	18,885
Increase (decrease) in retainage payable	(106,072)	(68,238)	105,441	(4,082)	(76,715)	(149,666)	-
Increase in customer deposits	-	148,459	-	-	-	148,459	-
Increase in estimated unpaid claims	-	-	-	-	-	-	970,834
Increase (decrease) in unearned revenue	-	(25,800)	28,372	-	(11,537)	(8,965)	-
Increase in net pension liability	116,298	318,253	196,685	-	41,182	672,418	112,674
Increase (decrease) in compensated absences	(32,286)	(24,649)	22,422	-	5,208	(29,305)	(5,252)
Increase in other postemployment benefits	42,427	118,865	74,685	-	14,552	250,529	42,252
Increase in closure/postclosure care	-	-	281,176	-	-	281,176	-
Increase (decrease) in other liabilities	(1,476)	100,015	97,194	-	2,918	198,651	(13,149)
Total adjustments	<u>6,267,425</u>	<u>17,280,905</u>	<u>2,183,046</u>	<u>1,874,370</u>	<u>(347,148)</u>	<u>27,258,598</u>	<u>5,879,005</u>
Net cash provided (used) by operating activities:	<u>\$ 5,743,187</u>	<u>\$ 23,529,580</u>	<u>\$ 7,369,513</u>	<u>\$ (389,980)</u>	<u>\$ (860,567)</u>	<u>\$ 35,391,733</u>	<u>\$ 6,053,493</u>

Noncash investing, capital, and financing activities:

Change in fair value of investments	\$ 111,571	\$ 513,498	\$ 195,773	\$ 41,962	\$ 9,469	\$ 872,273	\$ 147,776
Contributions of capital assets	-	6,289,163	-	-	-	6,289,163	45,178
Lease receivable	(437,100)	-	-	-	-	(437,100)	-
Negative amortization	-	2,428,360	-	-	-	2,428,360	-

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

City of Midland
Notes to the Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2015

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2015

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

GASB Statement No. 34, as amended by GASB Statement Nos. 37 and 38, requires that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of:

- Management's Discussion and Analysis (MD&A) – MD&A is RSI presented before the basic financial statements, which introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- Basic Financial Statements – The basic financial statements, including notes to the basic financial statements that are essential to a user's understanding of the statements, are presented at two basic levels:
 - A. The government-wide level where all statements are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements present all assets, liabilities, revenues, expenses and gains and losses of the City and distinguish between governmental and business type activities of the City and activities of the City's discretely presented component units.
 - B. The fund level, where governmental fund statements are prepared using the current financial resources measurement focus and the modified-accrual basis of accounting, and proprietary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

These statements focus on information about the City's major governmental and enterprise funds.

- RSI – Other than MD&A, RSI includes budgetary comparison schedules for the General Fund and any major Special Revenue Funds and other data, such as pension-related and other post employment data, required by GASB statements.

A. The Financial Reporting Entity

The financial reporting entity presented in the basic financial statements of the City of Midland includes the primary government, the City of Midland, 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

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

statements to be misleading or incomplete. GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61, 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 burden 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.

The Midland Football/Soccer and Baseball Complex Development Corporation (SCDC), 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 SCDC 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 SCDC. Additionally, the City Council and the SCDC boards are not substantively the same and the SCDC does not provide services entirely or almost entirely to the City.

The SCDC 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 4B of the Act. The purpose of the SCDC is to improve the quality of life and the public welfare of, for, and on behalf of the City by developing, implementing, providing, and financing the construction of a football-soccer stadium and baseball stadium and related infrastructure, streets, water and sewer facilities, landscaping, land acquisition, automobile parking facilities and other related infrastructure and improvements. Complete audited financial statements of the SCDC may be examined at City of Midland, City Hall, 300 North Loraine, Room 320, Midland, Texas.

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.

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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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.

Complete audited financial statements of the SCDC, MDC and Spaceport may be examined at City of Midland, City Hall, 300 North Loraine, Room 320, Midland, Texas.

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 on-going financial interest or (b) an on-going 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 of Midland 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, 2015, 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 19 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 non-fiduciary 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 and 61. 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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

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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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 modified-accrual basis of accounting. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual, that is, 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. Ambulance and grant revenues are considered to be available if they are to be received within one year.

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

Special Revenue Funds - ad valorem taxes, occupancy taxes, federal and state grant proceeds and interest, 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 balance sheet. Operating statements using this focus present a net total position view of increases (revenues) and decreases (expenses) in the fund.

Proprietary fund operating statements distinguish between operating and nonoperating 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

The principal operating revenues of the City's water and sewer, sanitation, golf course, airport and sports complex fund are charges of this type. Operating expenses include the costs of administration, sales, services and depreciation. Transactions resulting in nonoperating 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, and self-insurance services for workers' compensation, medical/dental and general liability.

The following major funds are used by the City:

1. Governmental 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.
- c. 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.

2. 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

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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.

- b. 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 the 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.
- c. 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 requirements of bond indentures and other 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 nonoperating revenue, is used to supplement charges to customers in supporting the requirements of bond indentures and certain capital projects.
- d. Scharbauer Sports Complex Fund - This fund is used to account for the operation and maintenance of the sports complex, accumulate resources for capital projects, and meet the requirements of bond indentures, obligations for capital leases and other long-term obligations of the system. Operations, maintenance costs and obligations for capital leases are financed through user charges. Revenues to provide for the retirement of long-term debt associated with the construction of the complex are provided from a contract with the SCDC.
- 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 bond indentures and other long-term obligations of the system. All costs are financed through user charges. In 2009, the City assumed operation of the pro shop and related inventories.

3. Other Fund Types

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

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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, LOGIC, and TexStar (2a7-like pools) are considered cash equivalents as the amounts are available on demand.

Investments, other than investments in 2a7-like pools, are recorded at fair value based upon verifiable market prices.

F. 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 appropriate 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 are defined as a purchase or other acquisition of any equipment, facilities or other similar assets or the cost of construction of such asset the cost of which is in excess of \$5,000 and has a useful life of more than one year. These assets include property, plant, equipment, 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, 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. Contributed assets are recorded at estimated fair value at the time of acquisition. Intangible assets are reported in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets for business-type activities is capitalized as part of the value of the asset. During fiscal year 2015, \$5,767 in capitalized interest was recorded. Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Classification</u>	<u>Years</u>
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 based on the criteria set forth in GASB Statement No. 16. 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 accrued and other related requirements are met. 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, discounts and issuance costs and amortize these items over the life of the issue using

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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 Office of Management and Budget (OMB) Circular A-87. However, the City does not charge the full cost determined through the OMB Circular A-87 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

O. Implementation of New Accounting Principles

In the preparation of the Fiscal Year 2015 basic financial statements, the City adopted the following accounting standard by the GASB:

- GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* which replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. In addition, the Statement requires certain new note disclosures as well as required supplementary information.
- GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68,*” was implemented. GASB Statement 71 amends paragraph 137 of GASB Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

With the implementation of these statements, the following table reflects the restatement to the beginning net position and reflected in the government-wide statements.

	Government-wide Statement of Activities	
	Governmental Activities	Business-type Activities
Net position at September 30, 2014, as previously reported	\$ 187,422,389	\$ 313,373,888
Recording of net pension liability as of September 30, 2014	(56,052,898)	(4,969,509)
Deferral for pension contributions made after the measurement date	6,727,841	1,058,985
Net position at September 30, 2014 as restated	\$ 138,097,332	\$ 309,463,364

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

2. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance – total government funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.”

The details of this \$146,445,560 difference are as follows:

Bonds, notes payable and certificates of obligation payable	\$ 56,244,864
Accrued interest payable	184,259
Compensated absences	5,423,880
Net pension liability	63,072,478
Other postemployment benefits	<u>21,520,079</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> arrive at <i>net position – governmental activities</i>	<u>\$146,445,560</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

The details of this \$17,072,168 difference are as follows:

Capital outlay (includes \$12,943,162 reported in General Fund functional activities)	\$27,188,884
Depreciation expense	<u>(10,116,716)</u>
Net adjustment to increase <i>net changes in fund balance – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$17,072,168</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.”

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

The details of this \$12,684,051 difference are as follows:

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	\$12,712,139
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In the statement of activities, only the <i>gain</i> on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	<u>(28,088)</u>
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Net adjustment to increase <i>net changes in fund balances</i> – <i>total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$12,684,051</u>
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Another element of that reconciliation states that, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.”

Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the statement of activities amortizes these amounts over time.”

The details of this \$3,871,687 difference are as follows:

Principal repayments:	
General obligation debt	\$ 1,290,857
Certificates of obligation	1,458,793
Notes payable	100,000
Change in interest payable	618,193
Amortization of premium and deferred loss	<u>403,844</u>
Net adjustment to decrease <i>net changes in fund balances</i> – <i>total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$ 3,871,687</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.”

The details of this (\$2,768,669) difference are as follows:

Compensated absences	\$ (48,473)
Other postemployment benefits	(1,460,390)
Pension costs, net	<u>1,259,806</u>
Net adjustment to decrease <i>net changes in fund balances</i> – <i>total governmental funds to arrive at changes in net position of governmental activities</i>	<u>(\$2,768,669)</u>

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

3. 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 City funds on deposit or the amount of City funds on deposit plus \$1,000,000, whichever is greater. City deposits were fully insured or collateralized as of September 30, 2015. At September 30, 2015, the carrying amount of cash for the City and MDC was (\$8,794,312) and \$10,510,912, respectively. The bank balance of \$3,772,767 was insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000. The remaining bank balance was collateralized by securities, fair value of \$17,962,405 at September 30, 2015, held in the City’s name by the Federal Reserve Bank of Minneapolis as agent for the City.

In addition to these bank balances, the Federal Reserve Bank serves as Custodian for eligible federal treasury and agency securities in the amount of \$69,992,460.

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;
6. Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC) obligations, i.e. discount notes or debentures.

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

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

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

F. Other Securities or Obligations Approved by the City Council

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

Investments of the City, other than for 2a7-like pools, are valued based upon quotes obtained from Bloomberg. Investments in 2a7-like pools are valued based upon the value of pool shares. No investments are reported at amortized cost. The City invests in three 2a7-like pools; the Local Government Investment Cooperative (LOGIC), TexStar, and the Texas Local Government Investment Pool (TexPool), all of which were created under the Interlocal Cooperation Act, Texas Government Code Ann. ch. 791 and the Texas Government Code Ann. ch. 2256. Investments in the 2a7-like pools are considered to be cash equivalents when preparing these financial statements.

LOGIC is governed by a five-member Board of Directors consisting of individuals from participating Government Entities in the pool. The business and affairs of LOGIC are managed by the Board. J.P. Morgan Investment Management, Inc. provides investment management, fund accounting, transfer agency and custodial services for the pool and First Southwest provides administrative, marketing and participant services. 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.

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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

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, 2015, the City invested in no reverse repurchase agreements.

Credit Risk – In compliance with the City's investment policy, as of September 30, 2015, 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 2a7-like pools (which represent approximately 74.7% of the portfolio) are rated AAAm by Standard and Poor's. The Farm Credit System obligations, Federal Home Loan Bank notes and Federal Home Loan Mortgage Corporation obligations were all rated AAA by Standard and Poor's.

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, 2015, the weighted average portfolio maturity was 1.41 years.

The City's investments carried at fair value as of September 30, 2015 are:

	Fair Value			Weighted Average Maturity (in years)	Credit Risk
	Primary Government	Component Units	Total		
Investments:					
FHLB	\$ 50,007,530	\$ -	\$ 50,007,530	6.74	AAA
FNMA	9,994,020	-	9,994,020	3.21	AAA
FHLMC	9,990,910	-	9,990,910	2.26	AAA
Subtotal investments	69,992,460	-	69,992,460		
2a7-Like Pools	207,060,739	17,064,327	224,125,066	-	AAAm
Total Fair Value	<u>\$ 277,053,199</u>	<u>\$ 17,064,327</u>	<u>\$ 294,117,526</u>		
Portfolio Weighted Average Maturity				1.41	

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, 2015, more than 5% of the City's investments are in Federal Home Loan Bank notes. This investment is 17.0% of the City's total portfolio. The investments in 2a7-like

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

pools balance as of September 30, 2015, consisted of TexPool, LOGIC, and TexStar in the amounts of \$62,573,467, \$165,915, and \$144,321,357, respectively.

4. 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 2014 tax roll or Fiscal Year 2014-2015 was \$0.393891 per \$100.00 assessed valuation, resulting in a tax levy in the amount of \$40,349,625 on an assessed valuation of \$10,243,855,831. The levy is composed of maintenance and operations levy of \$0.337480 and an interest and sinking fund (debt service) levy of \$0.056411 per \$100.00 assessed valuation. Property taxes are imposed nonexchange 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.

5. Receivables

Receivables as of September 30, 2015 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:								
Interest	\$ 105,778	\$ 1,636	\$ 13,321	\$ 60,323	\$ 22,756	\$ 3,095	\$ 45,683	\$ 252,592
Property Taxes	684,772	139,916	-	-	-	-	-	824,688
Sales Taxes	6,688,518	-	-	-	-	-	-	6,688,518
Accounts	4,938,921	2,653	207,302	10,674,174	846,633	190,531	1,340,444	18,200,658
Assessments	509,058	-	-	-	-	-	-	509,058
Intergovernmental	155,979	-	-	-	-	-	183,334	339,313
Gross receivables	13,083,026	144,205	220,623	10,734,497	869,389	193,626	1,569,461	26,814,827
Less: allowance for								
Uncollectibles	(3,582,837)	(28,890)	(17,623)	(483,289)	(3,400)	-	-	(4,116,039)
Net total receivables	\$ 9,500,189	\$ 115,315	\$ 203,000	\$ 10,251,208	\$ 865,989	\$ 193,626	\$ 1,569,461	\$ 22,698,788

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Governmental funds reports 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, 2015, the composition of these revenues was as follows:

	Deferred Inflows Unavailable Revenue	Governmental Unearned Revenue
	<u> </u>	<u> </u>
Delinquent property taxes receivable (general fund)	\$ 372,947	\$
Lot clearing receivable (general fund)	428,782	
Municipal Court fines (general fund)	819,963	
Delinquent property taxes receivable (debt service fund)	96,704	
Lot clearing receivable (other governmental funds)	977,020	
Street paving liens receivable	509,058	
Grant drawdowns prior to meeting all eligibility requirements		153,087
Prepayment of various charges		150
Total deferred/unearned revenue for governmental funds	\$ <u>3,204,474</u>	\$ <u>153,237</u>

(continued)

**CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

6. Capital Assets

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

Primary Government

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 6,675,074	\$ 244,694	\$ -	\$ 6,919,768
Construction in progress	2,684,704	26,928,766	(20,803,976)	8,809,494
Total capital assets, not being depreciated	<u>9,359,778</u>	<u>27,173,460</u>	<u>(20,803,976)</u>	<u>15,729,262</u>
Capital assets, being depreciated:				
Buildings	34,115,737	792,681	(6,590)	34,901,828
Improvements other than buildings	15,951,372	10,015,551	-	25,966,923
Machinery and equipment	62,714,404	12,078,966	(2,586,435)	72,206,935
Infrastructure	130,025,462	17,059,681	-	147,085,143
Other	9,146,933	924,645	(227,521)	9,844,057
Total capital assets, being depreciated	<u>251,953,908</u>	<u>40,871,524</u>	<u>(2,820,546)</u>	<u>290,004,886</u>
Less accumulated depreciation for:				
Buildings	(12,371,940)	(1,047,496)	6,590	(13,412,846)
Improvements other than buildings	(9,397,261)	(969,835)	-	(10,367,096)
Machinery and equipment	(37,101,501)	(5,449,099)	2,387,510	(40,163,090)
Infrastructure	(59,543,139)	(6,491,582)	-	(66,034,721)
Other	(7,858,584)	(657,096)	235,805	(8,279,875)
Total accumulated depreciation	<u>(126,272,425)</u>	<u>(14,615,108)</u>	<u>2,629,905</u>	<u>(138,257,628)</u>
Total capital assets, being depreciated, net	<u>125,681,483</u>	<u>26,256,416</u>	<u>(190,641)</u>	<u>151,747,258</u>
Governmental activities capital assets, net	<u>\$ 135,041,261</u>	<u>\$ 53,429,876</u>	<u>\$ (20,994,617)</u>	<u>\$ 167,476,520</u>

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 14,353,216	\$ 59,994	\$ -	\$ 14,413,210
Construction in progress	4,126,603	12,167,579	(6,188,169)	10,106,013
Total capital assets, not being depreciated	<u>18,479,819</u>	<u>12,227,573</u>	<u>(6,188,169)</u>	<u>24,519,223</u>
Capital assets, being depreciated:				
Water rights	717,058	-	-	717,058
Buildings	55,057,399	875,175	-	55,932,574
Improvements other than buildings	98,273,661	919,767	7,823	99,201,251
Machinery and equipment	10,787,938	967,278	-	11,755,216
Infrastructure	554,961,562	10,727,514	(7,823)	565,681,253
Other	4,481,563	26,462	-	4,508,025
Total capital assets, being depreciated	<u>724,279,181</u>	<u>13,516,196</u>	<u>-</u>	<u>737,795,377</u>
Less accumulated depreciation for:				
Water rights	(717,058)	-	-	(717,058)
Buildings	(21,356,221)	(1,483,409)	-	(22,839,630)
Improvements other than buildings	(45,434,845)	(3,465,133)	-	(48,899,978)
Machinery and equipment	(7,593,365)	(684,385)	-	(8,277,750)
Infrastructure	(132,653,934)	(14,729,778)	-	(147,383,712)
Other	(2,447,928)	(401,179)	-	(2,849,107)
Total accumulated depreciation	<u>(210,203,351)</u>	<u>(20,763,884)</u>	<u>-</u>	<u>(230,967,235)</u>
Total capital assets, being depreciated, net	<u>514,075,830</u>	<u>(7,247,688)</u>	<u>-</u>	<u>506,828,142</u>
Business-type activities capital assets, net	<u>\$ 532,555,649</u>	<u>\$ 4,979,885</u>	<u>\$ (6,188,169)</u>	<u>\$ 531,347,365</u>

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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

Governmental activities:	
General government	
Administration	\$ 89,706
Support services	1,321,077
Development services	1,260
Engineering	6,707,039
Community services	1,476,690
Police	245,205
Fire	275,739
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of assets	<u>4,498,392</u>
Total depreciation expense – governmental activities	<u>\$ 14,615,108</u>
Business-type activities:	
Airport	\$ 5,267,739
Water and sewer	12,636,836
Sanitation	708,287
Scharbauer sports complex	1,860,999
Nonmajor fund	<u>290,023</u>
Total depreciation expense – business-type activities	<u>\$ 20,763,884</u>

Discretely Presented Component Units

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

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

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans

A. Texas Municipal Retirement System

1. Plan Description

The City participates as one of 860 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 of Texas. The TMRS Act places the general administration and management of the System 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 of Texas. TMRS's 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.TMRS.com.

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

2. 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.

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 payments 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 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 yrs/age 60, 20 yrs/any age
Updated Service Credit	100% repeating, transfers
Annuity increase (to retirees)	50% of CPI repeating

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Employees covered by benefit terms.

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	558
Inactive employees entitled to but not yet receiving benefits	458
Active employees	<u>703</u>
Total	<u>1,719</u>

3. 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.

Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

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 15.79% and 15.23% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$6,682,872, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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 Table, 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 Disabled Retiree Mortality Table is used, with slight adjustments.

The Consumer Price Index (CPI) is assumed to be 3% per year prospectively. Annuity increases (also referred to as cost-of-living adjustments, or COLAs) are 50% of CPI-U, according to the provisions adopted by the City.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/2013	\$275,379,574	\$250,850,897	\$24,528,677
Changes for the year:			
Service cost	5,708,477	-	5,708,477
Interest	18,903,934	-	18,903,934
Change of benefit terms	-	-	-
Difference between expected and actual experience	2,321,980	-	2,321,980
Changes of assumptions	-	-	-
Contributions - employer	-	6,525,057	(6,525,057)
Contributions - employee	-	2,927,933	(2,927,933)
Net investment income	-	14,348,994	(14,348,994)
Benefit payments, including refunds of employee contributions	(16,355,215)	(16,355,215)	-
Administrative expense	-	(149,823)	149,823
Other changes	-	(12,318)	12,318
Net changes	\$ 10,579,176	\$ 7,284,628	\$ 3,294,548
Balance at 12/31/2014	\$285,958,750	\$258,135,525	\$27,823,225

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, 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 (6.%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	\$65,864,015	\$27,823,225	\$(3,488,589)

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.tmr.com.

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the city recognized pension expense of \$5,651,863.

At September 30, 2015, 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
Differences between expected and actual economic experience	\$1,677,630	-
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	2,568,455	-
Contributions subsequent to the measurement date	5,306,125	-
Total	\$9,552,210	-

\$5,306,125 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, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2015	\$1,286,464
2016	1,286,464
2017	1,031,044
2018	642,113
2019	-
Thereafter	-
Total	\$4,246,085

B. Midland Firemen's Relief and Retirement Fund

1. Plan Description

The Midland Firemen's Relief and Retirement Fund (the Fund) is established under the authority of the Texas Local Fire Fighter's 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 last actuarial valuation report available is for the year ended December 31, 2013. All assumptions for this valuation are contained in the Midland Firemen's Relief and Retirement Fund Actuarial Valuation Report and Review as of January 1, 2014, a copy of which may be

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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 dependence upon the City does exist to the extent the City makes contributions to the Fund equal to 21.7% of plan participants' pay. In the City's professional judgment, this dependence is not sufficient to warrant inclusion of the Fund's activities within the City's basic financial statements.

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 the Texas Municipal Retirement System.

2. Benefits Provided

The Midland Firemen's Relief and Retirement 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 10 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

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

his/her accumulated lump sum and begins receiving benefits as contracted for three years earlier.

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 0.4% per year that the beneficiary's age is less than the firefighter's age and minus 0.4% that the beneficiary's age is greater than the firefighter's. All benefits are subject to the IRS Sec. 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 5 years of actual receipt of benefits and physical departure from the Fire Department. Under this plan, Midland firefighters are required to contribute 13.2% 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 2.0% 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.

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Employees covered by benefit terms.

At the December 31, 2014 measurement date, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	150
Terminated employees entitled to benefits but not yet receiving benefits	9
Active employees	<u>206</u>
Total	<u>365</u>

3. Contributions

The City of Midland 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 21.70% of pay as authorized by Ordinance 9311 that adopted the Fiscal Year 2015 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 Texas Local Fire Fighters Retirement Act (TELFRA).

The Fund is required by statute to conduct actuarial studies once every three years and conducted the last study December 31, 2013 for the plan in effect at that time.

The funding policy of the Fund requires contributions equal to 13.2% of pay by the firefighters. The contribution rates for the City were 21.2% and 21.7% in calendar years 2014 and 2015, respectively. The City's contributions for the year ended September 30, 2015 were \$3,672,302, 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.

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

4. Net Pension Liability

The Fund's Net Pension Liability (NPL) was measured as of December 31, 2014. Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of January 1, 2014, rolled forward to December 31, 2014 based on procedures permitted by Paragraph 37 of GASB Statement No. 67.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	4.5% per year
Investment Rate of Return	8.0%, 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 percent. The rate exceeds the assumed discount rate by one-quarter of one percent. 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 2014 valuation by one year of service. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with separate rates for males and females. For disabled annuitants, rates were developed from the 1985 Society of Actuaries Disability Table Study using Class 1 male rates with a 90-day elimination period.

Actuarial assumptions used in the December 31, 2014 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 shortest period was for aggregate pay increases, which covered the period from January 1, 2005, to December 31, 2013. The longest was for the fund's rate of return which contained data starting January 1, 1995.

The long-term expected rate of return on pension plan investments of 8.0% was set by examining the fund's rate of return history and by taking into account future expected rates of return for portfolios with similar asset allocations. The assumed 8.0% rate can be considered to include a provision for inflation at 3.0% per year, although other combinations of real return, risk premium, and inflation are also accounted for by this rate. The rate of return is net of trust expenses.

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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 Adjusted to Actual	Long-Term Expected Real Rate of Return
Cash & short-term fixed income	7.79%	0.00%
Fixed Income		
Investment Grade	20.10%	3.00%
High Yield	6.00%	5.00%
Equities, Real Estate, and Alternative Investments		
Large-Cap	6.98%	6.75%
Large-Cap Value	2.27%	6.75%
Smid-cap	2.41%	8.40%
Emerging Markets	3.21%	6.00%
International equities	12.61%	5.80%
Real estate	22.94%	7.75%
Master limited partnership	5.11%	9.00%
Private Equity	10.58%	6.75%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.0%. 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.

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/2013	\$117,444,545	\$80,950,814	\$36,493,731
Changes for the year:			
Service cost	3,621,165	-	3,621,165
Interest	9,442,123	-	9,442,123
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	3,318,107	(3,318,107)
Contributions - employee	-	2,055,503	(2,055,503)
Net investment income	-	2,747,881	(2,747,881)
Benefit payments, including refunds of employee contributions	(6,301,043)	(6,301,043)	-
Administrative expense	222,705	(222,705)	445,410
Other changes	-	3,863	(3,863)
Net changes	\$ 6,984,950	\$ 1,601,606	\$ 5,383,344
Balance at 12/31/2014	\$124,429,495	\$82,552,420	\$41,877,075

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 8.0%, 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 (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
City's net pension liability	\$55,501,548	\$41,877,075	\$30,407,308

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 writing the Midland Firemen's Relief and Retirement Fund Board of Trustees, 1500 W. Wall, Midland, TX 79701.

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the city recognized pension expense of \$6,150,064. At September 30, 2015, 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
Differences between expected and actual economic experience	\$ -	-
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	2,945,866	-
Contributions subsequent to the measurement date	2,953,525	-
Total	\$5,899,391	-

\$2,953,525 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, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2015	\$736,467
2016	736,467
2017	736,467
2018	736,465
2019	-
Thereafter	-
Total	\$2,945,866

C. 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 the U.S. Conference of Mayors and Hartford Variable Annuity Life Insurance Company is 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.

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CITY OF MIDLAND, TEXAS
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D. 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 IRS 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.

E. 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. The City contributes \$750 per year for each eligible employee hired prior to October 1, 2009 to pay medical expenses which meet the guidelines of the City's HRA plan. Reimbursement dollars received by the employee are tax free and unspent dollars can be rolled over from year to year.

F. Other Postemployment Retirement Benefits (OPEB)

1. Plan Description

The City OPEB plan is a single-employer defined benefit "substantive plan" as understood by past practices of the employer and its employees. City employees employed prior to October 1, 2009 are eligible for retiree medical benefits if they are eligible for retirement plan benefits under the provisions of the Texas Municipal Retirement System or the City of Midland Fireman's Relief and Retirement Fund. Generally, employees eligible for retiree medical benefits are employees who retire with 25 years of service at any age or those employees who retire at age 60 with 10 years of service. Eligible participants include eligible spouses. The eligible member shall not be gainfully employed if receiving benefits from this plan. The City 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.

2. Funding Policy

The City of Midland allows retired employees to enroll in the City's health insurance plan. The City pays a fixed dollar amount toward the cost of group health coverage, based upon length of service (as of September 30, 2015, the amounts were \$247 per month for the retiree with 25 or more years service, \$221 for less than 25 years service, \$184 for less than 20 years service, and \$110 for 10 years or less service) or will provide a fixed dollar amount toward the purchase of a Medicare supplement policy (as of September 30, 2015, the amount was \$30 per month) if the retiree is eligible for Medicare. 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, 2015 were \$638,979, and there were 287

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

retirees participating in the plan at that date. The retired employees are required to pay the balance of their respective health plan contributions or premiums to participate in either plan.

3. Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation.

	<u>OPEB</u>
Annual required contribution	\$2,873,409
Interest on net OPEB obligation	686,887
Adjustment to annual required contribution	<u>(1,168,148)</u>
Annual OPEB cost (expense)	2,392,148
Contributions made	638,979
Increase in net OPEB obligation	<u>1,753,169</u>
Net OPEB obligation – beginning of the year	<u>24,649,393</u>
Net OPEB obligation – end	<u><u>\$26,402,562</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the preceding two years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Costs</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$5,097,075	11.4%	\$22,896,224
2014	2,392,148	26.7%	\$24,649,393
2015	2,392,148	26.7%	\$26,402,562

Funded Status and Funding Progress

The date of the most recent actuarial valuation date is June 2014. As of September 30, 2014, the actuarial accrued liability for benefits was \$34,605,162, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$61,329,589, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 68.9%. Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the June 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 2.5 percent inflation rate and 3 percent investment rate of return. The annual healthcare cost trend rate assumption is 8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after seven years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at September 30, 2015, was thirty years.

8. Leases

A. Operating Lease Receivables

The City enters in operating leases involving terminal space and other airport facilities at Midland International Air and Space Port (MAF). Additionally, the City has entered into an operating lease for use of and naming rights for the Security Bank Ballpark and Grande Stadium at the Scharbauer Sports Complex. Current year income for these leases was \$5,030,962 and \$355,322 for the Airport and Sports Complex, respectively. Minimum future rentals on noncancelable operating leases as of September 30, 2015 for each of the five subsequent fiscal years and in five-year increments thereafter are as follows:

Fiscal Year(s) Ending September 30	Airport Minimum Future Rentals	Sports Complex Minimum Future Rentals	Total Minimum Future Rentals
2016	\$ 3,351,220	\$ 348,790	\$ 3,700,010
2017	3,260,790	348,790	3,609,580
2018	3,215,575	298,815	3,514,390
2019	3,215,575	253,850	3,469,425
2020	3,219,880	178,850	3,398,730
2021–2025	1,676,848	465,567	2,142,415
2026–2030	563,893	48,750	612,643
2031–2035	594,025	-	594,025
2036–2038	241,054	-	241,054
Total	<u>\$ 19,338,860</u>	<u>\$ 1,943,412</u>	<u>\$ 21,282,272</u>

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CITY OF MIDLAND, TEXAS
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In general, the City's leasing arrangements for operating leases are as follows:

Airline Exclusive Space and Joint Use Space

Scheduled airlines operating at Midland International Air and Space Port are required to sign a standard airline/airport use and lease agreement. These agreements allow the signatory airline the use of certain premises and facilities and the exercise of certain rights and privileges at the Midland International Air and Space Port in connection with the operation of an air transportation system.

Terminal building joint use and exclusive rates are currently \$20.50 per square foot per year (s.f.y.). The rate used to calculate the amount of rent to be paid by the airline to the City shall be reviewed annually and may be adjusted if the Airport's financial data for the Airport System Cost/Revenue indicates such need. In no event shall the square footage rate be less than \$20.50 per s.f.y.

All current airline lease agreements are in a holdover period. All of the terms and conditions of the lease shall remain unmodified and in full force and effect until a new lease has been agreed to and signed by both parties.

Fixed Base Operator (FBO) Leased Space

Currently, there are two Commercial Fixed Base Operator City-owned building/facility/land lease agreements between the Department of Airports and the existing FBOs.

The first lease agreement for properties located at Midland Airpark expires April 30, 2017. Rental rates for this lease vary by location with ground rental at \$0.05 per s.f.y. and building rentals from \$0.11 to \$1.13 per s.f.y. This agreement allows for rent to be adjusted annually, beginning January 1, 2009, to reflect changes in the Consumer Price Index (CPI).

The second lease is for ground rental at MAF. This lease expires December 31, 2037. Rental rates for this lease are currently at \$0.061 s.f.y. This lease provides for annual rental adjustments based on percentage increases in annual general aviation and military fuel sales. This lease also incorporates minimum base rental increases every five years throughout the term of this agreement. In no event will rental be adjusted below \$0.05 s.f.y.

Rental Car Facilities Lease Space

Car rental concessionaires operating at MAF are required to sign a standard Car Rental Concession agreement. These agreements guarantee minimum monthly/ annual payments to the Airport and allow the concessionaire the use of certain premises and the exercise of certain rights, privileges and uses therein, as necessary to provide car rental service on the property at the Airport.

Minimum annual guarantee amounts are reviewed annually and adjusted as follows: the minimum annual guarantee will be the greater of the base year, or 85% of the previous

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CITY OF MIDLAND, TEXAS
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year's actual rent payments. In no event will the annual guarantee be lower than the base year. All Car Rental Concession agreements expire July 31, 2020.

Terminal Building Concession Lease Space

Restaurant and Gift Shop Concessionaires operating at MAF are required to sign a standard Concession agreement. These agreements guarantee minimum monthly/annual payments to the Airport and allow the concessionaire to use certain premises and exercise certain rights, privileges, and uses therein, as necessary to provide restaurant and gift shop services on the property at the Airport.

Minimum annual guarantee amounts are reviewed annually and adjusted as follows: the minimum annual guarantee will be the greater of the base year, or 85% of the previous year's actual rent payments. Minimum annual guarantees are subject to CPI adjustment every five years. In no event will the annual guarantee be lower than the base year. Restaurant and gift shop agreements expire September 30, 2024.

Scharbauer Sports Complex

1. Security Bank Ballpark Use Lease

The Security Bank Ballpark use lease is a lease between Midland Sports, Inc. and the City with an initial 20-year term beginning April 1, 2002, and ending March 30, 2022, with two 5-year options to renew. The lease is noncancelable during the initial 20-year term. The lease agreement is for rights to use Security Bank Ballpark and executive office space and requires a good faith effort to play 68 home games each year by a AA major league baseball franchise. The lease rate was \$4,160 per month, due on the first day of each month, until May 1, 2007 when the rate increased to \$4,165 per month. The lease rate increased to \$4,170 on May 1, 2012 and shall increase to \$4,175 on May 1, 2017. An additional lump-sum lease fee of \$50,000 per year is due on September 30 of each year for the first 15 years of the initial 20-year lease term. 15% of net concession sales is payable to the City during the term of the lease.

2. Security Bank Ballpark Naming Rights

The Security Bank naming rights license agreement is an agreement between the City and Security Bank to name the baseball stadium at the Scharbauer Sports Complex Security Bank Ballpark. The full term of this agreement is 25 years and is divided into component units of 10 years and 5 years each. The first 10 years is the initial term, the next 5 years is the second term, and the subsequent terms shall consist of 2 terms of 5 years commencing at the end of the second term. The agreement requires payments of \$1,225,975, \$710,250, \$803,675, and \$909,350 during the initial through subsequent terms, respectively.

The agreement is cancelable any time during years 6 through 10 of the initial term upon payment of \$75,000 to the City and 1 year written notice of that intent to the City. Additionally, the agreement is cancelable at the end of the first term upon proper written notification to the City by Security Bank and payment of any additional license payments due during the term. The agreement is cancelable

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

at any time during the subsequent terms of the agreement upon one year written notice with no penalties.

3. Grande Stadium Use Lease

The Grande Stadium, a football/soccer stadium, use lease is a noncancelable lease between Midland Independent School District (MISD) and the City for use of the football/soccer stadium. The stadium is to be the home stadium of all MISD football and soccer teams and may be used by MISD for other MISD events with the consent of the City. The lease term is 20 years, August 1, 2002 through July 31, 2022. Under the terms of the lease, MISD is to pay the City \$50,000 per year rent plus a \$30,000 per year operating contribution plus 50% of net concession revenue. Subsequent to the initial five-year period of the lease and at every subsequent five-year period, the annual rent shall be adjusted based upon the change in the CPI - All Urban Consumers, All Items, Dallas - Fort Worth Area.

4. Grande Communications Naming Rights

The Grande Communications naming rights license agreement is an agreement between the City and Grande Communications - ClearSource, Inc. to name the football/soccer stadium at the Scharbauer Sports Complex Grande Communications Stadium. The full term of the agreement is 25 years. The agreement required payment of \$30,000 on or before December 1, 2002 and \$48,750 per year for the remaining term of the agreement. These payments are due on June 1 of each year with the first payment due June 1, 2003, and the final payment due on June 1, 2026. The agreement is noncancelable during the term of the agreement, except in the event of default as defined in the agreement, by either party.

B. Capital Leases Payable

The City has an agreement with Midland County Fresh Water Supply District (Water District) to provide wholesale water delivery service from the T-Bar well field through the development of wells and related pipeline infrastructure to the City. This agreement qualifies as a lease for accounting purposes and the asset is recorded on the cost basis as the date of pipeline completion.

The City entered into a second agreement with the Water District in the amount of \$30 million for the infrastructure to produce and deliver water from City-owned property at Clearwater Ranch. This agreement also qualifies as a lease for accounting purposes and the asset is recorded on the cost basis.

A summary of assets acquired through lease is as follows:

Infrastructure	226,576,160
Less: accumulated amortization	(12,207,967)
	214,368,193

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CITY OF MIDLAND, TEXAS
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The following is a summary of the capitalized lease transactions for the City for the year ended September 30, 2015:

	Balance at September 30, 2014	Capital Lease Commitments	Amortization of Capital Leases	Balance at September 30, 2015
Water and Sewer Fund	\$ 229,630,333	\$ -	\$ (2,428,360)	\$ 232,058,693

The structuring of the debt by the Water District is included as a part of the wholesale water delivery service contract in the first agreement, and results in a negative amortization for Fiscal Year 2015.

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

Fiscal Year Ending September 30:

2016	\$ 10,367,033
2017	10,369,923
2018	10,370,815
2019	10,369,711
2020	10,366,606
2021-2025	51,845,889
2026-2030	88,159,014
2031-2035	128,337,162
2036-2040	128,337,162
2041-After	<u>25,667,432</u>
Total minimum lease payments	474,190,747
Less Interest at 3.33% and 5.02%	<u>(242,132,054)</u>
Present Value	<u>\$ 232,058,693</u>

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

C. Leases Receivable

The City has a Commercial Hangar Lease Agreement with Midland Development Corporation (MDC) for economic development purposes and to provide aviation services as permitted within the agreement. This agreement qualifies as a lease for accounting purposes.

MDC's future minimum lease obligations to the City obligations and the net present value of these payments as of September 30, 2015, were as follows:

Fiscal Year Ending September 30:

	2016	\$ 72,000
	2017	72,000
	2018	72,000
	2019	72,000
	2020	72,000
	2021–2023	162,000
Total minimum lease payments		\$ 522,000
Less Interest at 5.00%		(84,900)
Present Value		\$ 437,100

(continued)

**CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

9. Long-Term Debt

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

	Balance at October 1, <u>2014</u>	<u>Increase</u>	<u>Decrease</u>	Balance at September 30, <u>2015</u>	Due Within <u>One Year</u>
Governmental Activities:					
General Obligation Refunding Bonds	\$ 4,960,585	\$ -	\$ (1,290,857)	\$ 3,669,728	\$ 1,334,728
Certificates of Obligation	50,634,483	-	(1,458,793)	49,175,690	2,100,000
Plus Premium on Debt	3,810,812	-	(411,366)	3,399,446	375,306
Total Bonds Payable	59,405,880	-	(3,161,016)	56,244,864	3,810,034
Notes Payable	100,000	-	(100,000)	-	-
Compensated Absences Liability	5,487,849	4,792,559	(4,749,900)	5,530,508	3,914,763
Net Pension Liability*	56,052,898	15,389,048	(7,388,515)	64,053,431	-
Other Postemployment Benefits Payable	20,758,354	2,004,771	(503,709)	22,259,416	-
Self-Insurance Liability	3,152,867	8,171,663	(7,200,829)	4,123,701	1,341,736
Total Governmental Activity					
Long-term Debt	<u>\$ 144,957,848</u>	<u>\$ 30,358,041</u>	<u>\$ (23,103,969)</u>	<u>\$ 152,211,920</u>	<u>\$ 9,066,533</u>
Business-Type Activities:					
Water and Sewer:					
Certificates of Obligation	\$ 59,215,000	\$ -	\$ (2,230,000)	\$ 56,985,000	\$ 2,325,000
Plus Issuance Premiums	1,825,003	-	(152,041)	1,672,962	146,532
Capital Lease Obligation	229,630,333	-	2,428,360	232,058,693	-
Airport:					
General Obligation Refunding Bonds	3,140,000	-	(1,535,000)	1,605,000	1,605,000
Plus Issuance Premiums	15,198	-	(11,891)	3,307	3,307
Sports Complex:					
General Obligation Refunding Bonds	17,945,000	-	(2,110,000)	15,835,000	2,215,000
Plus Issuance Premiums	329,413	-	(81,493)	247,920	70,219
Nonmajor Fund:					
Certificates of Obligation	1,805,517	-	(16,207)	1,789,310	60,000
General Obligation Refunding Bonds	69,415	-	(34,143)	35,272	35,272
Plus Issuance Premiums	207,884	-	(18,543)	189,341	17,173
Total Bonds Payable	314,182,763	-	(3,760,958)	310,421,805	6,477,503
Water and Sewer Fund:					
Compensated Absences Liability	330,413	262,731	(286,818)	306,326	207,908
Net Pension Liability*	2,276,261	1,037,817	(714,622)	2,599,456	-
Other Postemployment Benefits Payable	1,945,547	208,285	(87,842)	2,065,990	-
Sanitation Fund:					
Closure/postclosure care	13,578,303	331,394	-	13,909,697	-
Compensated Absences Liability	108,937	189,734	(167,312)	131,359	98,991
Net Pension Liability*	1,437,380	631,577	(434,892)	1,634,065	-
Other Postemployment Benefits Payable	1,043,030	106,749	(32,064)	1,117,715	-
Airport Fund:					
Compensated Absences Liability	231,417	135,722	(168,008)	199,131	143,748
Net Pension Liability*	959,071	373,445	(257,147)	1,075,369	-
Other Postemployment Benefits Payable	689,170	57,791	(15,364)	731,597	-
Nonmajor Fund:					
Compensated Absences Liability	82,172	26,665	(21,457)	87,380	54,141
Net Pension Liability*	296,797	132,240	(91,058)	337,979	-
Other Postemployment Benefits Payable	213,293	14,552	-	227,845	-
Total Business-Type					
Activity Long-term Debt	<u>\$ 337,374,554</u>	<u>\$ 3,508,702</u>	<u>\$ (6,037,542)</u>	<u>\$ 334,845,714</u>	<u>\$ 6,982,291</u>

*The net pension liability is a new long-term liability beginning in Fiscal Year 2014-15 as a result of the implementation of GASB Statement No. 68. The prior year balance is a result of a prior period adjustment (Note 1 O).

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**CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

Long-term debt at September 30, 2015 consists of the following issues:

	Original Issue	Interest Rates	Final Maturity Date	Principal Outstanding	Annual Principal Installments	Call Provisions
General obligation bonds serviced						
by tax revenues:						
General Obligation Refunding Bonds, Series 2009	\$ 7,708,926	3.00%	2016	\$ <u>589,728</u>	\$ 589,728	1
General Obligation Refunding Bonds, Series 2014	3,800,000	3.00–4.00%	2020	<u>3,080,000</u>	370,000–805,000	1
Total				<u>\$ 3,669,728</u>		
Certificates of obligation serviced						
by tax revenues:						
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2007	6,910,000	4.00–5.00%	2027	\$ <u>4,985,000</u>	320,000–530,000	3
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2009	9,855,000	3.00–4.25%	2029	<u>7,700,000</u>	435,000–700,000	5
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2012	13,590,000	3.00–4.25%	2032	<u>12,335,000</u>	535,000–950,000	6
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2014	24,374,483	3.00–5.00%	2034	<u>24,155,690</u>	810,000–1,890,000	7
Total				<u>\$ 49,175,690</u>		
General obligation bonds serviced						
by Enterprise Fund revenues:						
Airport Fund:						
General Obligation Refunding Bonds, Series 2006A	\$ 13,160,000	4.00%	2016	\$ <u>1,605,000</u>	\$ 1,605,000	1
Scharbauer Sports Complex Fund:						
General Obligation Refunding Bonds, Series 2006B	28,970,000	4.00–5.00%	2022	<u>15,835,000</u>	835,000–2,800,000	2
Nonmajor Fund:						
General Obligation Refunding Bonds, Series 2009	461,074	3.00%	2016	<u>35,272</u>	35,272	1
Total				<u>\$ 17,475,272</u>		
Certificates of obligation serviced						
by Enterprise Fund revenues:						
Water and Sewer Fund:						
Combination Tax and Revenue Refunding Bonds, Series 2007	\$ 4,995,000	4.00%	2016	\$ <u>585,000</u>	\$ 585,000	1
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2007	48,595,000	4.00–5.00%	2037	<u>42,010,000</u>	1,120,000–3,035,000	4
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2012	15,855,000	3.00–4.25%	2032	<u>14,390,000</u>	620,000–1,110,000	6
Nonmajor Fund:						
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2014	1,805,517	3.00–5.00%	2034	<u>1,789,310</u>	60,000–140,000	7
Total				<u>\$ 58,774,310</u>		

Call provisions for long-term debt of the City are as follows:

1. The bonds are not optional for redemption prior to maturity.
2. Callable as a whole or in part, bonds maturing 2017 through 2022, on March 1, 2016, or on any interest payment date thereafter at par plus accrued interest.
3. Callable as a whole or in part, bonds maturing 2018 through 2027, on March 1, 2017, or on any interest payment date thereafter at par plus accrued interest.
4. Callable as a whole or in part, bonds maturing 2018 through 2037, on March 1, 2017, or on any interest payment date thereafter at par plus accrued interest.

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

5. Callable as a whole or in part, bonds maturing 2020 through 2029, on March 1, 2019, or on any interest payment date thereafter at par plus accrued interest.
6. Callable as a whole or in part, bonds maturing 2022 through 2032, on March 1, 2021, or on any interest payment date thereafter at par plus accrued interest.
7. Callable as a whole or in part, bonds maturing 2024 through 2034, on March 1, 2023, or on any interest payment date thereafter at par plus accrued interest.

The annual requirements to amortize debt outstanding as of September 30, 2015, including interest payments of approximately \$55,395,292, follow. Due to the nature of the self-insurance liability and the compensated absences liability, annual requirements to amortize such obligations are not determinable and have not been included in the following summary. The City intends to retire all of the long-term debt associated with governmental activities, other than bonds payable and certificates of obligation, from General Fund revenues as it has done in prior years. Debt associated with business-type activities will be retired with revenues generated by those activities.

City of Midland, Texas
Debt Service Requirements to Maturity
September 30, 2015

Fiscal Year Ending September 30,	Supported by General Government			Supported by Enterprise Funds			Total All Debt Service Requirements
	General Obligation Bonds, Certificates of Obligation and Notes Payable			General Obligation Bonds, Certificates of Obligation and Notes Payable			
	Principal	Interest	Total	Principal	Interest	Total	
2016	3,434,728	2,159,066	5,593,794	6,240,272	3,326,898	9,567,170	15,160,964
2017	2,947,931	2,052,511	5,000,442	4,212,069	3,078,602	7,290,671	12,291,113
2018	3,060,173	1,939,099	4,999,272	4,399,827	2,888,814	7,288,641	12,287,913
2019	2,712,414	1,826,592	4,539,006	4,582,586	2,709,733	7,292,319	11,831,325
2020	2,833,966	1,715,976	4,549,942	4,791,034	2,502,803	7,293,837	11,843,779
2021	2,550,862	1,603,462	4,154,324	5,024,138	2,266,597	7,290,735	11,445,059
2022	2,667,069	1,489,629	4,156,698	3,157,931	2,079,806	5,237,737	9,394,435
2023	2,782,931	1,369,997	4,152,928	2,422,069	1,962,223	4,384,292	8,537,220
2024	2,913,793	1,242,586	4,156,379	2,536,207	1,851,864	4,388,071	8,544,450
2025	3,049,310	1,106,968	4,156,278	2,655,690	1,730,642	4,386,332	8,542,610
2026	3,184,828	968,535	4,153,363	2,780,172	1,608,170	4,388,342	8,541,705
2027	3,325,000	828,712	4,153,712	2,900,000	1,489,229	4,389,229	8,542,941
2028	2,914,828	691,916	3,606,744	3,020,172	1,364,936	4,385,108	7,991,852
2029	3,049,310	559,891	3,609,201	3,150,690	1,234,215	4,384,905	7,994,106
2030	2,453,793	439,611	2,893,404	3,291,207	1,095,427	4,386,634	7,280,038
2031	2,572,586	327,467	2,900,053	3,442,414	942,852	4,385,266	7,285,319
2032	2,686,379	208,849	2,895,228	3,603,621	781,689	4,385,310	7,280,538
2033	1,815,517	111,910	1,927,427	2,619,483	634,415	3,253,898	5,181,325
2034	1,890,000	37,800	1,927,800	2,755,000	501,425	3,256,425	5,184,225
2035	-	-	-	2,745,000	364,625	3,109,625	3,109,625
2036	-	-	-	2,885,000	223,875	3,108,875	3,108,875
2037	-	-	-	3,035,000	75,875	3,110,875	3,110,875
	<u>\$ 52,845,418</u>	<u>\$ 20,680,577</u>	<u>\$ 73,525,995</u>	<u>\$ 76,249,582</u>	<u>\$ 34,714,715</u>	<u>\$ 110,964,297</u>	<u>\$ 184,490,292</u>

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities. The City is restricted by City Charter to a maximum of \$2.00 on each \$100.00 of appraised valuation. The City's current tax levy is \$0.056411 per \$100.00 valuation for the payment of debt. The Constitution and Statutes of the State of Texas and the Charter of the City of Midland do not provide for a legal debt limit. However, a limit of 8% of assessed value has been recommended by the Finance Advisory Board of the City of Midland and has been adopted by the City Council as a guideline of safe debt limit. This guideline provides the City with a debt margin of \$695,509,925.

The City has also issued certificates of obligation to provide funds for the acquisition and construction of major capital facilities owned and operated by the enterprise funds of the City. These certificates of obligation are supported by revenues of the respective enterprise funds and appropriately recorded as liabilities of the appropriate fund. There are a number of restrictions and requirements contained in the various indentures. Management believes that the City is in compliance with such restrictions and requirements at September 30, 2015.

On June 1, 1996, the City issued \$8,730,000 of City of Midland, Texas (Midland and Martin Counties), Waterworks and Sewer System Revenue Bonds, Series 1996 for the purpose of financing the expansion of and improvements to the City's primary wastewater treatment plant and funding an amount to be held in reserve. The bonds mature over a 20-year period and have interest rates ranging from 2.85% to 4.85%. Annual debt service requirements on this issue (including principal and interest) range from \$596,077 to \$673,453. All issues of these bonds subsequent to the May 2007 payment of \$425,000 have been defeased by placing proceeds from the City of Midland, Texas (Midland and Martin Counties), Combination Tax and Revenue Refunding Bonds, Series 2007 in an irrevocable trust to provide for all future principal and interest payments on the bonds. As of September 30, 2015, there is \$640,000 in aggregate of the refunded principal of these bonds outstanding, with an interest rate of 4.85%.

On February 1, 2006, the City entered into a refunding transaction whereby \$13,160,000 of City of Midland, Texas General Obligation Refunding Bonds, Series 2006A, with interest rates ranging from 4.00% to 5.00%, were issued to call for redemption all outstanding Airport Subordinate Lien Revenue and Tax Certificates of Obligation, Series 1996 maturities subsequent to the March 1, 2006 payment date, principal amount, \$13,415,000, on February 23, 2006, and as such, these 1996 maturities are not included in the City's basic financial statements. The refunding bonds mature over a ten-year period and have annual debt service requirements (including principal and interest) ranging from \$366,277 to \$1,642,050. The refunding transaction resulted in a debt service savings of \$1,346,451 and a present value benefit of \$1,069,423 to the City.

On February 1, 2006, the City entered into a refunding transaction whereby \$28,970,000 of City of Midland, Texas General Obligation Refunding Bonds, Series 2006B, with interest rates ranging from 3.40% to 5.00%, were issued to advance refund City of Midland, Texas, Tax and Limited Pledge Revenue Certificates of Obligation Series 2000, dated March 1, 2000, maturing on March 1 in each of the years 2011 through 2030, inclusive, and aggregating in the principal amount \$30,250,000. As a result, the refunded bonds are considered to be defeased and the liability is not included in the City's basic financial statements. The refunding bonds mature over a 16-year period from March 1, 2007 through March 1, 2022, and have annual debt service requirements (including principal and interest) ranging from \$813,169 to \$2,907,243.

On January 15, 2007, the City entered into a refunding transaction whereby \$4,995,000 of City of Midland, Texas (Midland and Martin Counties), Combination Tax and Revenue Refunding Bonds,

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Series 2007 with interest rates ranging from 4.00% to 4.25%, were issued to call for redemption all outstanding Waterworks and Sewer System Revenue Bonds, Series 1996 maturities subsequent to the May 1, 2007 payment date, principal amount, \$5,245,000 on February 23, 2007, and as such, these 1996 maturities are not included in the City's basic financial statements. The refunding bonds mature over a ten-year period and have annual debt service requirements (including principal and interest) ranging from \$565,527 to \$608,400. The refunding transaction resulted in a debt service savings of \$596,283 and a present value benefit of \$116,970 to the City.

On January 15, 2007, the City issued \$55,505,000 of City of Midland, Texas (Midland and Martin Counties), Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007 for the purpose of financing improvements and expansion to the water and sewer system, parks, streets, traffic systems, fire stations, and City facilities, and to pay the costs associated with the issuance of the certificates. The bonds mature over a 30-year period and have interest rates ranging from 4% to 5%. Annual debt service requirements on this issue (including principal and interest) range from \$3,108,875 to \$4,289,426.

On February 1, 2009, the City issued \$9,855,000 of City of Midland, Texas (Midland and Martin Counties), Tax and Limited Pledge Revenue Certificates of Obligation, Series 2009 for the purpose of paying contractual obligations to be incurred for construction, improvement, and acquisition of public works and equipment, improving, renovating and equipping existing City-owned buildings, including the Martin Luther King Community Center, the Midland Municipal Court Building, and the Midland Senior Center Building, acquiring, constructing, equipping and improving parks and park facilities within the City, including the Jenna Welch Nature Study Center, constructing and improving streets, including paving, drainage, traffic signage, and signalization, and paying professional services rendered in relation to such projects and the financing thereof. The bonds mature over a 20-year period and have interest rates ranging from 3% to 4.25%. Annual debt service requirements on this issue (including principal and interest) range from \$711,563 to \$716,555.

On May 1, 2009, the City entered into a refunding transaction whereby \$8,170,000 of City of Midland, Texas (Midland and Martin Counties), General Obligation Refunding Bonds, Series 2009 with interest rates ranging from 2.5% to 3%, were issued to redeem the following:

City of Midland, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 1997, dated February 15, 1997, scheduled to mature on March 1 in each of the years 2010 through 2012, inclusive, aggregating in principal amount \$1,215,000, and called for redemption on June 3, 2009 at the price of par plus accrued interest to the date of redemption; and

City of Midland, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 1998, dated March 1, 1998, scheduled to mature on March 1 in each of the years 2010 through 2013, inclusive, aggregating in principal amount \$725,000, and called for redemption on June 3, 2009 at the price of par plus accrued interest to the date of redemption; and

City of Midland, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 1999, dated February 15, 1999, scheduled to mature on March 1 in each of the years 2010 through 2014, inclusive, aggregating in principal amount \$2,025,000, and called for redemption on June 3, 2009 at the price of par plus accrued interest to the date of redemption; and

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

City of Midland, Texas, Tax and Limited Pledge Revenue Certificates of Obligation, Series 2001, dated February 15, 2001, scheduled to mature on March 1 in each of the years 2010 through 2016, inclusive, and aggregating in principal amount \$4,130,000, and called for redemption on June 3, 2009 at the price of par plus accrued interest to the date of redemption; and

As such, these maturities are not included in the City's basic financial statements. The refunding bonds mature over a eight-year period and have annual debt service requirements (including principal and interest) ranging from \$178,817 to \$1,706,888. The refunding transaction resulted in a debt service savings of \$424,744 and a present value benefit, economic gain, of \$445,184 to the City.

On January 15, 2012, the City issued \$29,445,000 of City of Midland, Texas (Midland and Martin Counties), Tax and Limited Pledge Revenue Certificates of Obligation, Series 2012 for the purpose of construction, improvement, and acquisition of public works and equipment, to wit: acquiring and installing a voice and data communication system for public service, including police and fire departments, improving, constructing and equipping fire fighting facilities, improving, constructing and equipping park and recreational facilities, improving and equipping the City's informational technology system, constructing and improving streets, including drainage, landscaping, curbs, gutters, sidewalks, signage and traffic signalization incidental thereto and the acquisition of land and rights-of-ways therefor, improving and extending the City's water and sewer system and paying professional services rendered in relation to such projects and the financing thereof. The bonds mature over a 20-year period and have interest rates ranging from 3% to 4.25%. Annual debt service requirements on this issue (including principal and interest) range from \$2,096,756 to \$2,104,525.

On January 15, 2014, the City entered into a refunding transaction whereby \$3,800,000 of City of Midland, Texas, General Obligation Refunding Bonds, Series 2014 with interest rates ranging from 2% to 4%, were issued to redeem the following:

City of Midland, Texas, Tax and Limited Pledge Revenue Certificates of Obligation, Series 2003, dated February 15, 2003, scheduled to mature on March 1 in each of the years 2014 through 2018, inclusive, aggregating in principal amount \$2,055,000, and called for redemption at the price of par plus accrued interest to the date of redemption; and

City of Midland, Texas, Tax and Limited Pledge Revenue Certificates of Obligation, Series 2005, dated February 15, 2005, scheduled to mature on March 1 in each of the years 2015 through 2020, inclusive, and aggregating in principal amount \$2,365,000, and called for redemption on at the price of par plus accrued interest to the date of redemption; and

As such, these maturities are not included in the City's basic financial statements. The refunding bonds mature over a six-year period and have annual debt service requirements (including principal and interest) ranging from \$62,560 to \$851,300. The refunding transaction resulted in a debt service savings of \$303,558 and a present value benefit, economic gain, of \$289,950 to the City.

On January 15, 2014, the City issued \$26,180,000 of City of Midland, Texas, Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014 for the purpose of construction, improvement, and acquisition of public works and equipment, acquiring and installing a voice and data communication system for public service, including police and fire departments, improving, constructing and equipping fire fighting facilities, improving, constructing and equipping park and recreational facilities, improving and equipping the City's informational technology system, constructing and improving streets, including drainage, landscaping, curbs, gutters, sidewalks, signage and traffic signalization incidental thereto and

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

the acquisition of land and rights-of-ways therefor, and paying professional services rendered in relation to such projects and the financing thereof. The bonds mature over a 20-year period and have interest rates ranging from 2% to 5%. Annual debt service requirements on this issue (including principal and interest) range from \$2,067,150 to \$2,072,050.

10. Restricted Assets

Certain resources of the City are classified as restricted assets on the statement of net position and balance sheet because their use is limited by applicable bond covenants or City ordinance.

11. Interfund Transactions

Interfund payables, receivables and advances at September 30, 2015, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Advance to</u>	<u>Advance from</u>	<u>Notes Receivable</u>	<u>Notes Payable</u>
Major fund:						
General Fund	\$ 64,865	\$ -	\$ 817,813	\$ -	\$ -	\$ -
Nonmajor Funds:						
Special Revenue Funds:						
Community Development Fund	-	64,865	-	-	-	-
Enterprise Fund:						
Golf Course Fund	-	-	-	817,813	-	1,017,273
Internal Service Fund:						
Garage Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,017,273</u>	<u>-</u>
Total	<u>\$ 64,865</u>	<u>\$ 64,865</u>	<u>\$ 817,813</u>	<u>\$ 817,813</u>	<u>\$ 1,017,273</u>	<u>\$ 1,017,273</u>

The advance to the Golf Course Fund is related to Golf Course Fund debt service and is to be repaid from Golf Course Player Facility Charge revenues upon retirement of the Golf Course Fund debt associated with the General Obligation Refunding Bonds, Series 2009.

The note payable from the Golf Course Fund to the Garage Fund was generated in order to make capital improvements to Hogan Park Golf Course. The note is interest bearing and is to be repaid as revenue becomes available from a Golf Course Player Facility Charge instituted specifically for capital improvements of the Golf Course.

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Interfund transfers during the year ended September 30, 2015 were as follows:

<u>Fund/Purpose of Transfer</u>	<u>Transfer From</u>	<u>Transfer To</u>
Major governmental funds:		
General Fund:		
Direct cost allocation	\$ -	\$ 4,566,344
Detention basin project	67,433	-
Sports complex support	684,397	-
Debt Service Fund:		
Section 108 loan servicing	-	106,250
Limited water and sewer revenue pledge	-	-
Receipt of unused old bond funds	-	335
Nonmajor governmental funds:		
Special Revenue Fund:		
Hotel-Motel Fund – direct cost allocation	33,000	-
TIRZ #1 Fund – direct cost allocation	33,000	-
Capital Projects Fund:		
Move unused bond funds to debt service:		
2001 General Purpose Certificates of Obligation	25	
2005 General Purpose Certificates of Obligation	88	
2007 General Purpose Certificates of Obligation	215	
2009 General Purpose Certificates of Obligation	7	
Major proprietary funds:		
Enterprise funds:		
Water and Sewer Fund:		
Detention basin project	-	67,433
Limited water and sewer revenue pledge	-	-
Direct cost allocation	1,103,177	-
Section 108 loan - debt service	106,250	-
Sanitation Fund – direct cost allocation	639,896	-
Airport Fund – direct cost allocation	1,600,000	-
Sports Complex Fund:		
Direct cost allocation	511,451	-
Sports complex support	-	684,397
Nonmajor proprietary funds:		
Golf Course Fund:		
Direct cost allocation	125,309	-
Internal Service Funds:		
Garage Fund – direct cost allocation	500,948	-
Warehouse Fund – direct cost allocation	19,563	-
Totals	<u>\$ 5,424,759</u>	<u>\$ 5,424,759</u>

The interfund transfers of \$684,397 to the Sports Complex Fund alleviated cash flow deficits in Fiscal Year 2015.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

12. Status of Capital Grants

In August 2013, the City accepted A.I.P. Grant No. 3-48-0150-54-13 in the amount of \$3,404,500 to be used for the payment of cost associated with seven projects- The Airfield Lighting Cabling Replacement and Airfield Signage, Phase 1 with an estimated cost of \$90,000; Rehabilitate Entrance Road Pavement and Guidance Signage, Phase 1 with an estimated cost of \$87,300; Rehabilitate Emergence Perimeter Road and Access Gates with an estimated cost of \$688,351; Airfield Security Access Control Gate, Phase 1 with an estimated cost of \$27,000; Construct Runway 16R Run-up Apron, Phase 1 with an estimated cost of \$82,800; Wildlife Hazard Management Plan with an estimated cost of \$19,397 and the Northwest Taxilane Extension with an estimated cost of \$2,409,652. All 7 AIP projects were completed as of September 2015.

In August 2015, the City accepted A.I.P Grant No. 3-48-0150-055-2015 in the amount of \$673,545 to be used for the payment of cost associated with the Construction of the GA Apron, Phase I (Design), Construct Taxiways, Phase I (Design) and Rehabilitate Runway 16R/34R, Phase I (Design). These projects were not completed as of September 2015.

13. Contingent Liabilities

The City participates in numerous federally assisted programs, on both a direct and state pass-through basis, as well as on a service-provider basis. Principal among these are Community Development Block Grants, Airport Improvement Program Grants, and various construction and capital acquisition grants.

In connection with these grants, the City is required to comply with specific terms and agreements, as well as applicable federal and state laws and regulations. Such compliance is subject to review and audit by the grantors and their representatives, including audits under the "single audit" concept and compliance examinations, which build upon such audits.

In the opinion of management, the City has complied with all requirements. However, since such programs are subject to future audit or review, the possibility of disallowed expenditures exists. In the event of such disallowance of claimed expenditures, if any, the City expects the resulting liability to be immaterial.

The City appealed a Class I classification of a waste pit by the Texas Water Commission Waste Classification Group to the Environmental Protection Agency (E.P.A.). The E.P.A. denied the City's appeal and upheld the Class I classification of the waste pit. Subsequently, the City applied to the Texas Natural Resource Conservation Commission (T.N.R.C.C.) for permission to close the waste pit in place. The application to close the waste pit in place was approved and closure was completed and approved by T.N.R.C.C. in June 1997. The City has properly recorded the property deed and must inspect the waste pit quarterly through June 1999 and annually thereafter.

The City has \$6.16 million in interest free forgivable loans as part of economic development agreements with the MDC for various infrastructure construction projects. These items are presented in the financial statements as due to component unit.

14. Risk Management

The City is exposed to various risks of loss related to torts: environmental or eminent domain claims; civil rights claims; equal employment opportunity claims; wage and hour claims; theft of,

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

damage to, and destruction of assets; errors and omissions; injuries to employees; medical and dental claims of employees and their dependents; and natural disasters. The City maintains fire and extended coverage insurance for City buildings, furnishings, and computer equipment. This coverage provides replacement cost coverage with an annual limit of \$238,345,219, and a \$25,000 per occurrence deductible.

The City also maintains the following other insurance coverage: Airport Liability coverage for Premises, Products, Personal Injury Liability and Malpractice Aggregate Liability coverage with a \$10,000,000 per occurrence and annual aggregate with \$25,000 per occurrence deductible for each type of coverage, Ground Hangar Keepers Legal Liability coverage with a \$10,000,000 per occurrence and annual aggregate, and \$100,000 Fire Damage coverage; Boiler and Machinery Liability coverage of \$25,000,000 per occurrence with a \$25,000 deductible; Healthcare Professional Liability Protection for the Health Department with a \$1,000,000 per occurrence and a \$2,000,000 aggregate limit; Errors and Omissions coverage with a \$25,000 per occurrence deductible, \$3,000,000 per claim limit and a \$6,000,000 aggregate annual limit; Law Enforcement Liability coverage with a \$25,000 per occurrence deductible, \$3,000,000 per claim limit and a \$6,000,000 aggregate annual limit; Auto Catastrophe coverage with limit of liability \$2,079,447 and a \$50,000 deductible; Automobile Liability coverage of \$1,000,000 per occurrence with a \$50,000 deductible; General Liability coverage of \$1,000,000 each occurrence and a \$2,000,000 aggregate limit with a \$50,000 deductible; Medical claims stop-loss coverage for claims exceeding \$175,000 per occurrence, lifetime maximum unlimited with an annual aggregate lifetime maximum of \$1,000,000 with a minimum aggregate deductible of \$6,588,281 and Specific Excess and Aggregate Excess Workers' Compensation coverage meets the statutory limit requirement for claims.

No settlements during each of the last three years have exceeded commercial coverage purchased. Other than the above coverages provided by insurance, the City retains all risk of loss.

The City charges interfund premiums based primarily upon the insured funds' claims experience and exposure, which are reported as insurance expenditure/expense in the funds charged and operating revenue in the self-insurance funds, which are accounted for as internal service funds. The City accrues all losses and claims if information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Claims incurred but not reported (IBNR) are also accrued if it is probable that a claim will be asserted and the loss can be reasonably estimated. The accrued liabilities for IBNR in the General Liability and Workers' Compensation Self-Insurance Funds are estimates calculated by an actuary. The accrued liability for IBNR in the Medical/Dental Self-Insurance Fund is based on management's estimate.

The City maintains a Workers' Compensation Self-Insurance Fund. The purpose of this fund is to pay workers' compensation claims that are outside the limitations of purchased coverage from assets of the fund.

The City also maintains a Medical/Dental Self-Insurance Fund. The purpose of this fund is to pay medical and dental claims that are outside the limitations of purchased coverage, for City of Midland employees and their covered dependents and to minimize the cost of medical and dental insurance to the City.

The City also maintains a General Liability Self-Insurance Fund to pay general liability claims, other than those covered by purchased insurance against the City from accumulated assets of the Fund. The Texas Tort Claims Act provides for statutory limits of \$250,000 per person and \$500,000 per

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

occurrence for bodily injury or death and \$100,000 per occurrence for property damage in liability claims against a municipality.

The claims liabilities for self-insurance funds are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred and the amount of the loss can be reasonably estimated at the date of the financial statements.

Changes in the claims liability amounts for each of the self-insurance funds in the fiscal years ended September 30, 2014 and 2015 were:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2013-2014				
Workers' Compensation	\$ 1,181,530	\$ 922,629	\$ 774,567	\$ 1,329,592
Medical/Dental	669,482	5,528,349	5,639,721	558,110
General Liability	<u>1,214,666</u>	<u>368,386</u>	<u>317,887</u>	<u>1,265,165</u>
Total	<u>\$ 3,065,678</u>	<u>\$ 6,819,364</u>	<u>\$ 6,732,175</u>	<u>\$ 3,152,867</u>
2014-2015				
Workers' Compensation	\$ 1,329,592	\$ 607,021	\$ 627,618	\$ 1,308,995
Medical/Dental	558,110	6,307,595	6,301,270	564,435
General Liability	<u>1,265,165</u>	<u>1,273,093</u>	<u>287,987</u>	<u>2,250,271</u>
Total	<u>\$ 3,152,867</u>	<u>\$ 8,187,709</u>	<u>\$ 7,216,875</u>	<u>\$ 4,123,701</u>

15. Commitments

The City leases water rights from two sources. One of the leases renewed in August 2008, and as of August 2013 requires payment at a constant five-year rate of \$0.50 per 1000 gallons. The second, smaller lease was renewed in February 2011 and requires payment at a constant five-year rate of \$0.40 per 1000 gallons. Total royalty paid amounted to \$388,087 in Fiscal Year 2015.

The City owns property that serves as a wastewater disposal site. There are approximately 12,500 acres at two sites for this purpose.

The Colorado River Municipal Water District (the CRMWD) was issued a permit in May 1985 by the Texas Commission on Environmental Quality (formerly, Texas Natural Resource Conservation Commission) to construct a 554,000-acre-feet dam and reservoir on the Colorado River and impound water in Coleman, Concho and Runnels Counties, Texas. This project is known as the O. H. Ivie Reservoir (the Project).

The City of Midland entered into a contract with CRMWD in September 1985, under which the City obtained a 16.54% interest in the Project's water rights. CRMWD agreed to provide the City a source of water from O. H. Ivie Reservoir limited annually to 16.54% of the safe yield of the reservoir. The City agreed to pay CRMWD a sum equal to 16.54% of the cost of the Project plus annual operating costs.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

CRMWD is responsible for the care, operation, and maintenance of the Project. The City does not have an ownership interest in the assets of the Project or CRMWD nor is it directly liable for the revenue bonds issued by CRMWD to finance the Project. The City's share of project costs is expensed as water rights in the Water and Sewer Fund. Payments by the City to CRMWD are made solely from the gross revenues of the City's water and sewer system. The terms of the City-CRMWD contracts shall continue and be effective during the entire useful life of the Project.

In November 1985, CRMWD issued \$53,590,000 of revenue bonds with interest rates ranging from 8.25% to 11.25%. The City's operating cost to reimburse CRMWD for the Project costs is estimated to approximate \$900,000 per year through the year 2016 with expected payments totaling \$26,000,000.

The annual required payment as specified above will be reduced by an amount equal to 16.54% of the estimated investment earnings attributable to the proceeds from the sale of the revenue bonds. The City paid \$801,985 to CRMWD in Fiscal Year 2015, as the City's 16.54% interest in the Project costs. This amount is recorded as an expense in the City's financial statements for the year ended September 30, 2015.

CRMWD and the City of Midland entered into a water transmission contract on June 29, 1988, which provides for the construction and operation of raw water transmission pipelines, pump stations, and other facilities required to transmit water from O.H. Ivie Reservoir to Midland.

The water transmission system was constructed with the proceeds of \$115,000,000 Water System Revenue Bonds (Water Transmission Facilities Project), Series 1991 sold August 6, 1991, \$9,000,000 Water System Revenue Bonds (Water Transmission Facilities Project), Series 1994 sold September 27, 1994, and \$3,500,000 of Colorado River Municipal Water District cash contributions.

The system consists of a main pump station with five intermediate booster pump stations; each includes pumping units, electric motor controls and appurtenances, a steel- or earth-constructed surge tank and pipelines necessary to complete the Project. Electrical transmission lines sufficient to service the main pump station and booster pumps were constructed from suitable generating sources. The pipeline is approximately 158 miles long with lines ranging in diameter from 53 to 60 inches.

The water transmission system was constructed in three segments:

Segment 1 is capable of delivering up to 90 million gallons per day to a junction point near San Angelo.

Segment 2 is capable of delivering up to 65 million gallons per day to a junction point near Big Spring.

Segment 3 is capable of delivering up to 55 million gallons per day to Odessa/Midland termination point.

The City of Midland shared in the total construction costs at the rate of 22.222% of Segment 1, 30.769% of Segment 2, and 36.364% of Segment 3. The City also shared 22.222% of the total construction costs of the O. H. Ivie Pump Station Substructure. Operation and maintenance of the system is provided for by contractual agreements executed between the parties. The City paid \$2,610,721 to CRMWD in 2015, pursuant to this agreement.

The City's estimated annual commitment for the pipeline construction under this contract is \$2.76 million per year for a 30-year period beginning in 1994.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

The City owns water rights in Winkler County on the T-Bar Ranch and the ClearWater Ranch. Water from these ranches is produced and delivered to the City through a Wholesale Water Delivery Agreement with the Midland County Fresh Water Supply District #1. The Delivery Agreement requires the City of Midland pay a rate sufficient to produce minimum monthly payments that cover the T-Bar Water Project costs including project debt service, renewal and replacement costs and operations and maintenance of the system.

The approved rate the City will pay the District for water in fiscal year 2016 is \$2.78 per 1,000 gallons. The City is obligated to pay for a minimum of 300 million gallons of water per month. In addition to this rate, the City is also obligated to pay the debt service requirements for the ClearWater Ranch project. The Water Delivery Agreement allows for delivery rate increases beginning in fiscal year 2017 in order to sufficiently cover debt services and operation and maintenance expenses. The rate increase is limited to 5% each year unless the City adjusts the rate higher at its sole discretion. T-Bar Ranch and the ClearWater Ranch commitments are both capital lease agreements as noted in footnote 8b.

The City has active construction projects as of September 30, 2015. Total commitments for ongoing capital projects are composed of the following:

Municipal Court	\$	11,372,818
General Facilities		4,073,017
Streets and Drainage		12,465,174
Parks and Recreation		1,725,422
Technology		3,690,779
Police		324,553
Fire		654,108
Water and Sewer		5,889,683
Sanitation		5,736,491
Airport		4,892,296
Sports Complex		3,873,169
Total Capital Projects	\$	54,697,510

16. Litigation

The City is a party to several legal actions arising in the ordinary course of its business. In the opinion of the City's management, upon advice of the City Attorney, the City has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe that they will materially affect the City's operations or financial position.

17. Closure and Postclosure Care Cost

The City adopted GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, for the fiscal year beginning October 1, 1993.

State and federal laws and regulations require the City to place a final cover on the City of Midland Municipal Solid Waste Facility, Texas Natural Resource Conservation Commission Permit #1605 site

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Total current cost has been adjusted for the effects of inflation by using the Consumer Price Index for all Urban Consumers (CPI-U): Selected areas by Expenditure Category and Commodity and Service Group for Dallas-Fort Worth, Texas.

The base period selected was June 1993. The index change from July 2013 through July 2014 was 1.01%. The amount expensed for the year ended September 30, 2015 is \$281,176. The \$13,859,479 reported as landfill closure and postclosure care liability at September 30, 2015, represents the cumulative amount reported to date based on the use of 18.5% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$52,807,233 as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in the fiscal year ended September 30, 2015. The City expects to close the landfill in the year 2053. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

On April 9, 1997, the Financial Responsibility Requirements found in Environmental Protection Agency Subtitle D regulations as they relate to publicly owned or operated municipal solid waste landfill facilities became effective. These regulations require that financial assurance to perform closure, postclosure and corrective activities for landfill operations be provided.

The City has chosen to provide this assurance through use of the Local Government Financial Test and Government Guarantee. This guarantee consists of three basic components, which are a financial component, public notice component and a record-keeping and reporting component.

The public notice component of the Local Government Financial Test and Government Guarantee demonstrating financial assurance for closure, postclosure, or corrective action required by Environmental Protection Agency Subtitle D regulations for landfills operated by a local government requires the following disclosures be made.

- A. The specific facility covered is the City of Midland Municipal Solid Waste Facility, Texas Natural Resource Conservation Commission Permit #1605.
- B. Financial assurance costs are anticipated in the following categories of expenditures and in the amount of the corresponding cost estimates.

Closure Costs	\$ 7,295,979
Postclosure Costs	13,204,754
Corrective Action	<u> -</u>
 Total	 <u><u>\$ 20,500,733</u></u>

- C. The anticipated year of closure is 2061 with closure costs having been fully incurred at that time. It is anticipated that postclosure costs will be incurred evenly across the 46-year postclosure monitoring period at \$287,060 per year.

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

18. Related Organizations

The City is responsible for appointing the members of the board of the Midland Economic Development Corporation (MEDCO) but the City's accountability for this organization does not extend beyond making the appointments. For the year ended September 30, 2015, the City appropriated no funds to this organization.

19. Joint Venture

An interlocal agreement between the Cities of Midland and Odessa established the MOUTD as an urban transportation system provider under Chapter 458 of the Texas Transportation Code. The MOUTD began operating bus routes during the year ended September 30, 2004. Federal and state grants were obtained to cover start-up costs and purchases of buses and vehicles, as well as portions of operating costs. Both cities also contribute money for operations to the MOUTD. Should either city choose to withdraw from the interlocal agreement, a pro rata share of net position and capital equipment acquired by MOUTD with Texas Department of Transportation section 5307 funds or 5307 matching funds during the time in which the local government was a party to the agreement shall be transferred to the local government. Upon dissolution of the MOUTD, the net assets shall be disposed in accordance with the agreement of the cities and the laws of the State of Texas and the United States. Audited financial statements are available by contacting the Midland-Odessa Urban Transit District at 8007 E. Highway 80, Odessa, TX 79765.

20. Discretely Presented Component Units

Significant Accounting Policies

The SCDC, the MDC and the Spaceport are accounted for using the economic resources measurement focus and are presented as a discretely presented component units on the accrual basis of accounting.

Revenues and Expenses

The main revenue source for the SCDC is the Type B sales tax revenue and SCDC is bound by contract to pay all Type B sales tax revenues received to the City to pay for costs associated with the 2000 and 2001A City of Midland Certificates of Obligation and the City of Midland General Obligation Refunding Bonds, Series 2006B (see note 9). In addition, the proceeds of the Type B sales tax revenue may be used for maintenance costs of the football/soccer stadium, the baseball stadium and related parking facilities, and related infrastructure and improvements, not to exceed ten percent of the audited Type B sales tax revenue collected for the previous twelve months prior to September 30 of the previous fiscal year.

The main revenue source for the MDC is the Type A sales tax revenue, which became effective April 1, 2002. The MDC will incur expenses for economic development activities and operating expenses. The MDC expenses for fiscal year 2015 consisted of consulting and administrative expenses of \$1.7 million and economic development expenses of \$8 million..

The Spaceport began operations on October 16, 2013. The only expenses during 2015 were consulting fees. A contribution of the same amount was received to cover these fees for the Midland Spaceport Development Corporation.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Assets and Liabilities

The SCDC assets consist solely of accrued sales tax revenues. A liability in the exact amount of the accrued sales tax revenues is recognized because of the SCDC contractual liability to the City.

The MDC assets consist primarily of sales tax revenues receivable, investments and capital assets in the form of land, a building and improvements. The MDC's liabilities as of September 30, 2015 consist of amounts due for contractual agreements and a capital lease in which the City is the lessor.

The Spaceport had no assets or liabilities at September 30, 2015.

21. Fund Deficit

The General Liability Self-Insurance Fund had an accumulated deficit of \$1.1 million at September 30, 2015. This deficit will be eliminated during the fiscal year ending September 30, 2016.

CITY OF MIDLAND, TEXAS
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended September 30, 2015
(Unaudited)

	Budgeted Amounts		Actual Amounts	Adjustments– Budgetary Basis	Actual on a Budgetary Basis	Variance with Final Budget – Positive (Negative)
	Original	Final				
Revenues:						
Taxes	\$ 90,849,605	\$ 90,849,605	\$ 92,733,411	\$ -	\$ 92,733,411	\$ 1,883,806
Licenses and permits	1,620,500	1,620,500	3,569,903	-	3,569,903	1,949,403
Fines and forfeitures	4,282,000	4,282,000	3,349,255	-	3,349,255	(932,745)
Charges for services	7,258,271	7,258,271	3,182,358	4,566,344	7,748,702	490,431
Rentals	8,252	8,252	14,144	-	14,144	5,892
Intergovernmental	730,312	730,312	1,071,450	-	1,071,450	341,138
Investment earnings	465,000	465,000	1,819,941	-	1,819,941	1,354,941
Contributions and donations	-	-	583,401	-	583,401	583,401
Miscellaneous	208,015	208,015	440,943	-	440,943	232,928
Total revenues	105,421,955	105,421,955	106,764,806	4,566,344	111,331,150	5,909,195
Expenditures:						
General government:						
Administration	1,677,507	1,677,507	1,744,680	-	1,744,680	(67,173)
Support services	13,992,053	17,614,744	16,392,321	-	16,392,321	1,222,423
Fiscal management	2,232,672	2,232,672	2,079,315	-	2,079,315	153,357
Development services	3,719,573	3,871,652	3,555,322	-	3,555,322	316,330
Engineering	15,309,468	23,413,359	17,431,031	-	17,431,031	5,982,328
Community services	10,759,181	12,202,687	12,346,085	-	12,346,085	(143,398)
Police	26,107,209	26,421,582	25,308,241	-	25,308,241	1,113,341
Fire	25,115,515	25,138,375	26,254,173	-	26,254,173	(1,115,798)
Other	5,823,840	6,023,840	3,977,125	-	3,977,125	2,046,715
Total expenditures	104,737,018	118,596,418	109,088,293	-	109,088,293	9,508,125
Excess (deficiency) of revenues over (under) expenditures	684,937	(13,174,463)	(2,323,487)	4,566,344	2,242,857	15,417,320
Other financing sources (uses):						
Transfers in	-	-	4,566,344	(4,566,344)	-	-
Transfers out	(684,937)	(751,830)	(751,830)	-	(751,830)	-
Total other financing sources (uses)	(684,937)	(751,830)	3,814,514	(4,566,344)	(751,830)	-
Net change in fund balances	-	(13,926,293)	1,491,027	-	1,491,027	15,417,320
Fund balances – beginning	69,641,804	69,641,804	69,641,804	-	69,641,804	-
Fund balances – ending	\$ 69,641,804	\$ 55,715,511	\$ 71,132,831	\$ -	\$ 71,132,831	\$ 15,417,320

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

(see accompanying independent auditors' report)

CITY OF MIDLAND, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2015

(unaudited)

Budgetary Data

The City Council follows these procedures in establishing the annual budget:

1. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them. Annual budgets are legally adopted for the General Fund and the Debt Service Fund on a basis consistent with generally accepted accounting principles, except for the classification of interfund transfers for General Fund services to other funds as charges for services for budgetary purposes instead of interfund transfers. Formal budgetary integration is not employed for the proprietary funds. The City adopts an annual budget for managerial control for all proprietary funds.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance.
4. Expenditures may not legally exceed appropriations at the division level for legally adopted annual operating budgets. The City Manager has the authority to transfer appropriation balances from one department, the primary subunits of each fund, or division and the primary subunit of each department, to another within a single fund of the City. Department heads may approve amendments of amounts between line items within a division so long as the transfers do not significantly change the work program contemplated in the approved budget.
5. Supplemental appropriations during the year must be approved and adopted by the City Council through passage of resolution. During fiscal year 2015, there was \$13,859,400 in appropriation increases for the General Fund.
6. At the close of each fiscal year, unexpended budgetary appropriations lapse or revert to the undesignated fund balance. The unexpended appropriation balances in capital projects do not lapse at year-end.

The Budgetary Comparison Schedule, included in the required supplementary information, presents a comparison of the original and final amended budgets for the period to actual results of operations for the General Fund. There are no major special revenue funds.

CITY OF MIDLAND, TEXAS
Adjustments to Revenues, Expenditures and Other
Financing Uses from GAAP Basis to Budgetary Basis
For the Year Ended September 30, 2015
(Unaudited)

	Net Change in Fund Balances General Fund
GAAP basis	\$ 1,491,027
Revenues:	
Increase due to redefining interfund charges as interfund transfers	4,566,344
Other financing (uses):	
Decrease due to redefining interfund charges as interfund transfers	<u>(4,566,344)</u>
Budgetary basis	<u><u>\$ 1,491,027</u></u>

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

City of Midland, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System
Last 10 Years*
(Unaudited)

	12/31/2014
Total Pension Liability	
Service cost	\$ 5,708,477
Interest (on the Total Pension Liability)	18,903,934
Changes of benefit terms	-
Difference between expected and actual experience	2,321,980
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(16,355,215)
Net Change in Total Pension Liability	10,579,176
Total Pension Liability - Beginning	275,379,574
Total Pension Liability - Ending (a)	\$ 285,958,750
 Plan Fiduciary Net Position	
Contributions - employer	\$ 6,525,057
Contributions - employee	2,927,933
Net investment income	14,348,994
Benefit payments, including refunds of employee contributions	(16,355,215)
Administrative expense	(149,823)
Other changes	(12,318)
Net change in Plan Fiduciary Net Position	\$ 7,284,628
Plan Fiduciary Net Position - Beginning	250,850,897
Plan Fiduciary Net Position - Ending (b)	\$ 258,135,525
Net Pension Liability - Ending (a) - (b)	\$ 27,823,225
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	90.27%
Covered Employee Payroll	\$ 41,827,614
Net Pension Liability as a Percentage of Covered Employee Payroll	66.52%

*Information for additional years will be presented when available.

(see accompanying independent auditors' report)

City of Midland, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Midland Firemen's Relief and Retirement Fund
Last 10 Years*
(Unaudited)

	12/31/2014
Total Pension Liability	
Service cost (Pension benefits)	\$ 3,621,165
Service cost (Administrative expenses)	222,705
Interest (on the Total Pension Liability)	9,442,123
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(6,301,043)
Net Change in Total Pension Liability	6,984,950
Total Pension Liability - Beginning	117,444,545
Total Pension Liability - Ending (a)	\$ 124,429,495
 Plan Fiduciary Net Position	
Contributions - employer	\$ 3,318,107
Contributions - employee	2,055,503
Net investment income	2,747,881
Benefit payments, including refunds of employee contributions	(6,301,043)
Administrative expense	(222,705)
Other changes	3,863
	1,601,606
Net change in Plan Fiduciary Net Position	\$ 1,601,606
Plan Fiduciary Net Position - Beginning	80,950,814
Plan Fiduciary Net Position - Ending (b)	\$ 82,552,420
Net Pension Liability - Ending (a) - (b)	\$ 41,877,075
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.34%
Covered Employee Payroll	\$ 15,559,705
Net Pension Liability as a Percentage of Covered Employee Payroll	269.14%

*Information for additional years will be presented when available.

(see accompanying independent auditors' report)

City of Midland, Texas
Required Supplementary Information
Schedule of City's Contributions
Firemen's Relief and Retirement Fund
Last 10 Fiscal years*
(Unaudited)

	<u>9/30/2015</u>
Contractually required Contribution	\$ 3,672,302
Contributions in relation to the contractually required contribution	<u>3,672,302</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 16,926,073
Contributions as a percentage of covered-employee payroll	21.70%

Notes to Schedule of Contributions

Valuation Date January 1, 2014

Notes Actuarially determined contribution rates for 2014 were based on the contracted contribution rate

Methods and assumptions used to determine contribution adequacy:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period as of January 1, 2014	59.1 years
Asset valuation method	5-Year smoothed market value with a 20% of market value corridor
Inflation	3.00%
Salary increases	6.00% to 11.50%, including inflation based on service at attained age (fund specific)
Investment rate of return	8.00%
Retirement age	Experience-based table of rates that are specific to the Midland Fire Pension Fund
Mortality	Employee and healthy annuitant combined rates from the RP2000 Mortality Table, projected to 2015 using Scale AA, with separate rates for males and females

Other Information:

Notes There have been no benefit changes since the January 1, 2014 valuation date.

*Information for additional years will be presented when available.

(see accompanying independent auditors' report)

City of Midland, Texas
Required Supplementary Information
Schedule of Actuarial Liabilities and Funding Progress
Retiree Health Plan
(Unaudited)

Actuarial Valuation Date	12/31/14 (3)	12/31/13	12/31/12 (3)
Actuarial Value of Assets (1)	\$ -	\$ -	\$ -
Actuarial Accrued Liability (1)	N/A	34,605,162	N/A
Percentage Funded	N/A	0.00%	N/A
Unfunded Actuarial Accrued Liability (UAAL)	N/A	34,605,162	N/A
Annual Covered Payroll (2)	61,329,589	50,193,058	55,325,868
UAAL as a Percentage of Covered Payroll	N/A	68.94%	N/A

(1) As of June 12, 2014, the date of the actuarial reports prepared for the City of Midland.

(2) Extracted from City of Midland annual reports.

(3) Actuarial valuations were not completed as of December 31, 2012 and December 31, 2014.

(see accompanying independent auditors' report)

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

The City's Special Revenue Funds are as follows:

COMMUNITY DEVELOPMENT FUND – to account for federal funds received through various Community Development Block Grants.

FEDERAL POLICE SPECIAL PURPOSES FUND – to account for funds received from forfeited property under federal jurisdiction. Such funds are used solely for law enforcement purposes such as salaries, training, equipment, supplies and items used by officers in direct law enforcement duties.

STATE POLICE SPECIAL PURPOSES FUND - to account for funds received from forfeited property under state jurisdiction. Such funds are used solely for law enforcement purposes such as salaries, training, equipment, supplies and items used by officers in direct law enforcement duties.

H.I.D.T.A. FEDERAL SEIZURE FUND - High Intensity Drug Trafficking Area seizure funds are received from the Drug Enforcement Administration. The funds are to be used to supplement and/or enhance law enforcement activities with priority given to supporting community policing activities, training, and law enforcement activities calculated to result in further seizures or forfeitures.

DEPARTMENT OF JUSTICE GRANT FUND - to account for funds received from the Department of Justice, Office of Justice programs. The purpose of the Justice Assistance Grant (JAG) program is to support a broad range of activities to prevent and control crime.

TAX INCREMENT REINVESTMENT ZONE FUND - to account for funds received from taxing units that levy taxes on real property in a designated reinvestment zone, a contiguous geographic area in the City of Midland, as prescribed under the provisions of Chapter 311 of the Texas Tax Code. The purpose of the fund is to enhance the value of real property in the zone through improvements.

HOTEL-MOTEL TAX FUND - to account for funds received from the occupancy tax collected from hotels and motels. These funds are restricted by law for use for specified purposes.

MUNICIPAL COURT TECHNOLOGY FUND - to account for funds collected from the defendant upon conviction for a misdemeanor offense in the City of Midland Municipal Court as a cost of court. These funds are restricted for the purchase of technological enhancements for the benefit of City of Midland Municipal Court by Texas Code of Criminal Procedure Article 102.0172.

MUNICIPAL COURT BUILDING SECURITY FUND - to account for funds collected from the defendant upon conviction for a misdemeanor offense in the City of Midland Municipal Court as a cost of court. These funds are restricted for the purchase of building security enhancements for the benefit of City of Midland Municipal Court by Texas Code of Criminal Procedure Article 102.017.

STREET REPAIR IMPROVEMENT AND NEW STREET AND SIDEWALK INSTALLATION FUND - to account for funds received from a supplemental building permit charge and a supplemental street improvement charge on specified classes of property. These funds are committed to improving, repairing or installing streets, alleys and/or sidewalks.

CAPITAL PROJECTS FUNDS

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary type funds.

The City's Capital Projects Funds are as follows:

ANIMAL SHELTER FACILITY AND EQUIPMENT FUND – to account for the costs of building improvements and the purchase of equipment related to the Animal Shelter Facility, financed by funds received from a supplemental animal license fee.

1998 GENERAL PURPOSE CERTIFICATES OF OBLIGATION FUND – to account for the costs of street and drainage improvements, traffic improvements, park improvements, drainage improvements, downtown Midland improvements, and City Hall renovation and land acquisition, financed by certificates of obligation proceeds.

1999 GENERAL PURPOSE CERTIFICATES OF OBLIGATION FUND – to account for the costs of park improvements, buildings and structures for public gatherings, street improvements, drainage improvements, fire stations, golf course facilities, and fire fighting equipment, financed by certificates of obligation proceeds.

2001 GENERAL PURPOSE CERTIFICATES OF OBLIGATION FUND – to account for the costs of street and drainage improvements, traffic lights and controls, public safety equipment, park improvements, Midland Community Center equipment and improvements, records storage equipment and professional services related to planning and zoning projects.

2003 GENERAL PURPOSE CERTIFICATES OF OBLIGATION FUND – to account for the costs of traffic signage and signalization, street and drainage improvements, park improvements, Midland Center Facilities improvements, downtown Midland improvements and professional services rendered in relation to such projects financed by certificates of obligation proceeds.

2005 GENERAL PURPOSE CERTIFICATES OF OBLIGATION FUND – to account for the costs of public safety equipment, street paving, drainage, traffic signage and signalization improvements, park improvements, improvements to City facilities, downtown Midland improvements and professional services rendered in relation to such projects financed by certificates of obligation proceeds.

2007 GENERAL PURPOSE CERTIFICATES OF OBLIGATION FUND – to account for the costs of street, drainage, and traffic signalization, park and recreation improvements, acquiring, equipping, improving and renovating a building for storage of municipal property and fire fighting facilities, including the acquisition of land therefore and professional services rendered in relation to such projects financed by certificates of obligation proceeds.

2009 GENERAL PURPOSE CERTIFICATES OF OBLIGATION FUND – to account for the costs of acquiring, constructing, improving, renovating, or equipping existing City-owned buildings, parks and park facilities, constructing, paving or improving streets, drainage, traffic signage, and signalization and professional services rendered in relation to such projects financed by certificates of obligation proceeds.

2012 GENERAL PURPOSE CERTIFICATES OF OBLIGATION FUND – to account for the costs of constructing, improving, renovating, or equipping the voice and data communication system for public services, fire fighting facilities, park and recreational facilities, technology system, and streets. Acquire land and right-of way to improve and extend the City's water and sewer system financed by certificates of obligation proceeds.

2014 GENERAL PURPOSE CERTIFICATES OF OBLIGATION FUND – to account for the costs of acquiring and installing voice and data communication system for public services, improving, constructing and equipping firefighting facilities, park and recreational facilities, improving and equipping the City’s information technology system, streets, including drainage, landscaping, curbs, gutters, sidewalks, signage and traffic signalization incidental to the acquisition of land and right-of-ways financed by certificates of obligation proceeds.



CITY OF MIDLAND, TEXAS
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2015

Special Revenue											
	Community Development Fund	Federal Police Special Purposes Fund	State Police Special Purposes Fund	H. I. T. D. A. Federal Seizure Fund	Department of Justice Grant Fund	Tax Increment Reinvestment Zone Fund	Hotel Motel Tax Fund	Municipal Court Technology Fund	Municipal Court Building Security Fund	Street Repair Improvement and New Street and Sidewalk Installation Fund	Total
ASSETS											
Cash and cash equivalents	\$ 75,394	\$ 877,539	\$ 142,653	\$ 7,789	\$ 17,745	\$ 1,864,376	\$ 11,608,262	\$ 224,816	\$ 356,441	\$ 2,799,460	\$ 17,974,475
Investments	-	-	-	-	-	926,275	5,767,195	111,695	177,090	1,390,851	8,373,106
Receivables:											
Accounts receivable	977,020	-	-	-	-	-	169,881	-	-	-	1,146,901
Interest receivable	-	613	91	-	-	-	19,620	367	607	4,921	26,219
Intergovernmental receivable	183,334	-	-	-	-	-	-	-	-	-	183,334
Total assets	\$ 1,235,748	\$ 878,152	\$ 142,744	\$ 7,789	\$ 17,745	\$ 2,790,651	\$ 17,564,958	\$ 336,878	\$ 534,138	\$ 4,195,232	\$ 27,704,035
LIABILITIES											
Accounts payable	\$ 143,508	\$ -	\$ -	\$ -	\$ -	\$ 1,141,022	\$ 87,119	\$ -	\$ -	\$ 11,271	\$ 1,382,920
Retainage payable	-	-	-	-	-	58,886	-	-	-	15,836	74,722
Due to other funds	64,865	-	-	-	-	-	-	-	-	-	64,865
Unearned revenue	-	-	-	-	17,732	-	-	-	-	-	17,732
Other	-	-	-	-	-	-	70	-	-	-	70
Total liabilities	208,373	-	-	-	17,732	1,199,908	87,189	-	-	27,107	1,540,309
DEFERRED INFLOWS OF RESOURCES											
Unavailable revenue	977,020	-	-	-	-	-	-	-	-	-	977,020
FUND BALANCES											
Restricted for:											
Public Safety	-	878,152	142,744	7,789	-	-	-	-	-	-	1,028,685
Court	-	-	-	-	-	-	-	336,878	534,138	-	871,016
Communications	-	-	-	-	-	-	-	-	-	-	-
Downtown	-	-	-	-	-	-	-	-	-	-	-
Buildings and renovations	-	-	-	-	-	-	2,775,441	-	-	-	2,775,441
Streets and drainage	-	-	-	-	-	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-	3,369	-	-	-	3,369
Other purposes	50,355	-	-	-	-	-	14,698,959	-	-	-	14,749,314
Committed to:											
Buildings and renovations	-	-	-	-	-	-	-	-	-	-	-
Streets and drainage	-	-	-	-	-	-	-	-	-	4,168,125	4,168,125
Other purposes	-	-	-	-	13	1,590,743	-	-	-	-	1,590,756
Total fund balances	50,355	878,152	142,744	7,789	13	1,590,743	17,477,769	336,878	534,138	4,168,125	25,186,706
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,235,748	\$ 878,152	\$ 142,744	\$ 7,789	\$ 17,745	\$ 2,790,651	\$ 17,564,958	\$ 336,878	\$ 534,138	\$ 4,195,232	\$ 27,704,035

Capital Projects Funds

	1998	2001	2003	2005	2007	2009	2012	2014		Total	Total
Animal Shelter Facility and Equipment Fund	General Purpose Certificates of Obligation Fund			Nonmajor Governmental Funds							
\$ 28,998	\$ 172,130	\$ -	\$ 322,890	\$ 95,576	\$ 299,810	\$ 1,879,110	\$ 1,942,130	\$ 11,515,227	\$ 16,255,871	\$ 34,230,346	
14,407	18	-	7,391	5,587	3,195	68,651	193,051	184,538	476,838	8,849,944	
-	-	-	-	-	-	-	-	-	-	1,146,901	
36	-	-	31	19	11	258	496	596	1,447	27,666	
-	-	-	-	-	-	-	-	-	-	183,334	
<u>\$ 43,441</u>	<u>\$ 172,148</u>	<u>\$ -</u>	<u>\$ 330,312</u>	<u>\$ 101,182</u>	<u>\$ 303,016</u>	<u>\$ 1,948,019</u>	<u>\$ 2,135,677</u>	<u>\$ 11,700,361</u>	<u>\$ 16,734,156</u>	<u>\$ 44,438,191</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,114	\$ 523	\$ 127,346	\$ 144,983	\$ 1,527,903	
-	-	-	-	-	-	68,255	208,500	109,530	386,285	461,007	
-	-	-	-	-	-	-	-	-	-	64,865	
-	-	-	-	-	-	-	-	-	-	17,732	
-	-	-	-	-	-	-	-	-	-	70	
-	-	-	-	-	-	85,369	209,023	236,876	531,268	2,071,577	
-	-	-	-	-	-	-	-	-	-	977,020	
-	-	-	-	-	-	-	-	-	-	1,028,685	
-	-	-	-	-	-	-	-	-	-	871,016	
-	-	-	-	-	-	-	-	-	-	2,566,617	
-	172,148	-	330,312	84,446	-	-	111,372	2,455,245	2,566,617	2,566,617	
-	-	-	-	16,736	96,987	60,462	512,840	3,770,949	4,457,974	7,233,415	
-	-	-	-	-	206,029	1,802,188	1,193,515	4,219,558	7,421,290	7,421,290	
-	-	-	-	-	-	-	108,927	1,017,733	1,126,660	1,130,029	
-	-	-	-	-	-	-	-	-	-	14,749,314	
43,441	-	-	-	-	-	-	-	-	43,441	43,441	
-	-	-	-	-	-	-	-	-	-	4,168,125	
-	-	-	-	-	-	-	-	-	-	1,590,756	
<u>43,441</u>	<u>172,148</u>	<u>-</u>	<u>330,312</u>	<u>101,182</u>	<u>303,016</u>	<u>1,862,650</u>	<u>1,926,654</u>	<u>11,463,485</u>	<u>16,202,888</u>	<u>41,389,594</u>	
<u>\$ 43,441</u>	<u>\$ 172,148</u>	<u>\$ -</u>	<u>\$ 330,312</u>	<u>\$ 101,182</u>	<u>\$ 303,016</u>	<u>\$ 1,948,019</u>	<u>\$ 2,135,677</u>	<u>\$ 11,700,361</u>	<u>\$ 16,734,156</u>	<u>\$ 44,438,191</u>	

CITY OF MIDLAND, TEXAS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2015

Special Revenue

	Community Development Fund	Federal Police Special Purposes Fund	State Police Special Purposes Fund	H.I.T.D.A. Federal Seizure Fund	Department of Justice Grant Fund	Tax Increment Reinvestment Zone Fund	Hotel Motel Tax Fund	Municipal Court Technology Fund	Municipal Court Building Security Fund	Street Repair Improvement and New Street and Sidewalk Installation Fund	Total
REVENUES											
Hotel-Motel tax revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,835,435	\$ -	\$ -	\$ -	\$ 7,835,435
Street improvement charge	-	-	-	-	-	-	-	-	-	872,919	872,919
Pet licenses	-	-	-	-	-	-	-	-	-	-	-
Municipal Court technology assessment	-	-	-	-	-	-	-	61,151	-	-	61,151
Municipal Court Security Fee	-	-	-	-	-	-	-	-	45,810	-	45,810
Midland Center rentals	-	-	-	-	-	-	255,147	-	-	-	255,147
Intergovernmental grants	435,109	-	-	-	31,422	-	-	-	-	-	466,531
Investment income:											
Interest income	20,092	410	81	-	10	18,702	116,093	2,357	3,885	30,618	192,248
Net increase (decrease) in the fair value of investments	-	-	-	-	-	41,078	157,812	3,207	5,290	41,425	248,812
Program income	172,533	-	-	-	-	-	-	-	-	-	172,533
Miscellaneous	-	196,652	3,235	-	-	-	4,452	-	-	-	204,339
Total revenues	<u>627,734</u>	<u>197,062</u>	<u>3,316</u>	<u>-</u>	<u>31,432</u>	<u>59,780</u>	<u>8,368,939</u>	<u>66,715</u>	<u>54,985</u>	<u>944,962</u>	<u>10,354,925</u>
EXPENDITURES											
Community involvement	81,348	-	-	-	-	-	-	-	-	-	81,348
Housing programs	407,477	-	-	-	-	-	-	-	-	-	407,477
Economic development	-	-	-	-	-	-	3,043,874	-	-	-	3,043,874
Capital outlay	187,391	37,776	9,950	-	11,250	-	711,205	7,500	-	335,340	1,300,412
Other	18,874	25,058	22,300	-	20,173	3,201,498	94,648	50,952	-	-	3,433,503
Total expenditures	<u>695,090</u>	<u>62,834</u>	<u>32,250</u>	<u>-</u>	<u>31,423</u>	<u>3,201,498</u>	<u>3,849,727</u>	<u>58,452</u>	<u>-</u>	<u>335,340</u>	<u>8,266,614</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(67,356)</u>	<u>134,228</u>	<u>(28,934)</u>	<u>-</u>	<u>9</u>	<u>(3,141,718)</u>	<u>4,519,212</u>	<u>8,263</u>	<u>54,985</u>	<u>609,622</u>	<u>2,088,311</u>
OTHER FINANCING SOURCES (USES)											
Transfers out	-	-	-	-	-	(33,000)	(33,000)	-	-	-	(66,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,000)</u>	<u>(33,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(66,000)</u>
Net change in fund balances	<u>(67,356)</u>	<u>134,228</u>	<u>(28,934)</u>	<u>-</u>	<u>9</u>	<u>(3,174,718)</u>	<u>4,486,212</u>	<u>8,263</u>	<u>54,985</u>	<u>609,622</u>	<u>2,022,311</u>
Fund balances – beginning	<u>117,711</u>	<u>743,924</u>	<u>171,678</u>	<u>7,789</u>	<u>4</u>	<u>4,765,461</u>	<u>12,991,557</u>	<u>328,615</u>	<u>479,153</u>	<u>3,558,503</u>	<u>23,164,395</u>
Fund balances – ending	<u>\$ 50,355</u>	<u>\$ 878,152</u>	<u>\$ 142,744</u>	<u>\$ 7,789</u>	<u>\$ 13</u>	<u>\$ 1,590,743</u>	<u>\$ 17,477,769</u>	<u>\$ 336,878</u>	<u>\$ 534,138</u>	<u>\$ 4,168,125</u>	<u>\$ 25,186,706</u>

Capital Projects Funds

Animal Shelter Facility and Equipment Fund	1998	2001	2003	2005	2007	2009	2012	2014	Total	Total Nonmajor Governmental Funds
	General Purpose Certificates of Obligation Fund									
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,835,435
-	-	-	-	-	-	-	-	-	-	872,919
49,278	-	-	-	-	-	-	-	-	49,278	49,278
-	-	-	-	-	-	-	-	-	-	61,151
-	-	-	-	-	-	-	-	-	-	45,810
-	-	-	-	-	-	-	-	-	-	255,147
-	-	-	-	-	-	-	-	-	-	466,531
63	89	3	336	117	318	2,600	6,962	14,432	24,920	217,168
144	1	28	15	151	233	281	(3,063)	24,996	22,786	271,598
-	-	-	-	-	-	-	-	-	-	172,533
-	-	-	-	-	-	-	-	-	-	204,339
<u>49,485</u>	<u>90</u>	<u>31</u>	<u>351</u>	<u>268</u>	<u>551</u>	<u>2,881</u>	<u>3,899</u>	<u>39,428</u>	<u>96,984</u>	<u>10,451,909</u>
-	-	-	-	-	-	-	-	-	-	81,348
-	-	-	-	-	-	-	-	-	-	407,477
-	-	-	-	-	-	-	-	-	-	3,043,874
-	-	90,131	59,399	143,263	98,774	1,297,517	4,530,993	6,725,233	12,945,310	14,245,722
-	-	-	-	-	-	-	-	16,010	16,010	3,449,513
-	-	<u>90,131</u>	<u>59,399</u>	<u>143,263</u>	<u>98,774</u>	<u>1,297,517</u>	<u>4,530,993</u>	<u>6,741,243</u>	<u>12,961,320</u>	<u>21,227,934</u>
<u>49,485</u>	<u>90</u>	<u>(90,100)</u>	<u>(59,048)</u>	<u>(142,995)</u>	<u>(98,223)</u>	<u>(1,294,636)</u>	<u>(4,527,094)</u>	<u>(6,701,815)</u>	<u>(12,864,336)</u>	<u>(10,776,025)</u>
-	-	(25)	-	(88)	(215)	(7)	-	-	(335)	(66,335)
-	-	(25)	-	(88)	(215)	(7)	-	-	(335)	(66,335)
49,485	90	(90,125)	(59,048)	(143,083)	(98,438)	(1,294,643)	(4,527,094)	(6,701,815)	(12,864,671)	(10,842,360)
(6,044)	172,058	90,125	389,360	244,265	401,454	3,157,293	6,453,748	18,165,300	29,067,559	52,231,954
<u>\$ 43,441</u>	<u>\$ 172,148</u>	<u>\$ -</u>	<u>\$ 330,312</u>	<u>\$ 101,182</u>	<u>\$ 303,016</u>	<u>\$ 1,862,650</u>	<u>\$ 1,926,654</u>	<u>\$ 11,463,485</u>	<u>\$ 16,202,888</u>	<u>\$ 41,389,594</u>

CITY OF MIDLAND, TEXAS
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2015
(Unaudited)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 5,699,916	\$ 5,699,916	\$ 5,809,625	\$ 109,709
Investment earnings:				
Interest income	5,000	5,000	14,301	9,301
Net increase in the fair value of investments	-	-	13,313	13,313
Total revenues	<u>5,704,916</u>	<u>5,704,916</u>	<u>5,837,239</u>	<u>132,323</u>
EXPENDITURES				
Debt service:				
Principal	2,849,650	2,849,650	2,849,650	-
Interest	2,838,210	2,838,210	2,838,210	-
Paying agent fees	1,200	1,200	1,631	(431)
Total expenditures	<u>5,689,060</u>	<u>5,689,060</u>	<u>5,689,491</u>	<u>(431)</u>
Deficiency of revenues under expenditures	<u>15,856</u>	<u>15,856</u>	<u>147,748</u>	<u>131,892</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>106,250</u>	<u>106,250</u>	<u>106,585</u>	<u>335</u>
Total other financing sources	<u>106,250</u>	<u>106,250</u>	<u>106,585</u>	<u>335</u>
Net change in fund balances	122,106	122,106	254,333	132,227
Fund balances – beginning	<u>524,091</u>	<u>524,091</u>	<u>524,091</u>	<u>-</u>
Fund balances – ending	<u>\$ 646,197</u>	<u>\$ 646,197</u>	<u>\$ 778,424</u>	<u>\$ 132,227</u>

INTERNAL SERVICE FUNDS

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 to other government units, on a cost reimbursement basis.

The City's Internal Service Funds are as follows:

WAREHOUSE FUND – to account for the revenues and cost of operations of a central store for the City.

GARAGE FUND – to account for the revenues and cost of operations of a central motor pool. Vehicles are rented to user departments at estimated cost. Additions and replacements are financed by the Garage Fund and by transfers from the General Fund and Special Revenue Funds.

TECHNOLOGY FUND – to account for the revenues and cost of operations of a central technology asset pool for the City. New and replacement technological assets are funded by the Technology fund, to be reimbursed by the user funds at an amortized rate over a specified asset life.

WORKER'S COMPENSATION SELF-INSURANCE FUND – to account for the revenues and expenses of a worker's compensation plan consisting of purchased insurance and self-insurance for claims prior to October 1, 1996. Departments of the City are charged premiums consistent with the cost of comparable insurance plans.

MEDICAL/DENTAL SELF-INSURANCE FUND – to account for the revenues and expenses of a group life insurance, medical insurance and dental insurance self-insurance plan for employees, dependents and retirees. Departments of the City are charged premiums consistent with the cost of comparable insurance plans. Claims are provided for as incurred.

GENERAL LIABILITY SELF-INSURANCE FUND – to account for the revenues and expenses of a self-insured general liability insurance fund. Departments of the City are charged premiums consistent with the cost of comparable insurance plans. Claims are provided for as incurred.

CITY OF MIDLAND, TEXAS
Internal Service Funds
Combining Statement of Net Position
September 30, 2015

	Warehouse Fund	Garage Fund	Technology Fund	Worker's Compensation Self- Insurance Fund	Medical/ Dental Self- Insurance Fund	General Liability Self- Insurance Fund	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 437,618	\$ 3,567,121	\$ 4,627,946	\$ 1,954,084	\$ 3,718,401	\$ 869,170	\$ 15,174,340
Investments	208,731	1,680,334	674,863	968,140	1,081,005	426,295	5,039,368
Accounts receivable (net of allowance for uncollectibles)	-	91,243	-	-	78,938	-	170,181
Interest receivable	597	6,965	296	3,270	3,476	1,003	15,607
Notes receivable	-	102,000	-	-	-	-	102,000
Inventories	212,021	422,402	-	-	-	-	634,423
Prepaid items and other assets	-	1	-	20,000	-	-	20,001
Total current assets	<u>858,967</u>	<u>5,870,066</u>	<u>5,303,105</u>	<u>2,945,494</u>	<u>4,881,820</u>	<u>1,296,468</u>	<u>21,155,920</u>
Noncurrent assets:							
Capital assets:							
Land	-	-	-	-	-	45,541	45,541
Buildings	23,804	1,788,120	-	-	-	5,000	1,816,924
Improvements other than buildings	500,000	361,592	-	-	-	-	861,592
Machinery and equipment	-	52,929,808	940,524	-	-	26,967	53,897,299
Intangible and Other	124,105	4,213,190	62,323	187,105	-	187,500	4,774,223
Construction in progress	-	-	-	-	-	-	-
Less accumulated depreciation	<u>(226,603)</u>	<u>(37,199,935)</u>	<u>(213,297)</u>	<u>(187,105)</u>	<u>-</u>	<u>(184,890)</u>	<u>(38,011,830)</u>
Total capital assets (net of accumulated depreciation)	<u>421,306</u>	<u>22,092,775</u>	<u>789,550</u>	<u>-</u>	<u>-</u>	<u>80,118</u>	<u>23,383,749</u>
Other noncurrent assets:							
Notes receivable	-	915,273	-	-	-	-	915,273
Total noncurrent assets	<u>421,306</u>	<u>23,008,048</u>	<u>789,550</u>	<u>-</u>	<u>-</u>	<u>80,118</u>	<u>24,299,022</u>
Total assets	<u>1,280,273</u>	<u>28,878,114</u>	<u>6,092,655</u>	<u>2,945,494</u>	<u>4,881,820</u>	<u>1,376,586</u>	<u>45,454,942</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred pensions	14,330	286,790	-	-	-	25,844	326,964
Total deferred outflows of resources	<u>14,330</u>	<u>286,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,844</u>	<u>326,964</u>
LIABILITIES							
Current liabilities:							
Accounts payable	16,010	936,296	194,516	5,986	338,913	99,325	1,591,046
Accrued payroll	5,851	116,302	-	-	-	8,048	130,201
Compensated absences	8,889	65,148	-	-	-	1,747	75,784
Estimated unpaid claims	-	-	-	327,250	564,435	450,051	1,341,736
Other liabilities	-	-	-	-	6,477	-	6,477
Total current liabilities	<u>30,750</u>	<u>1,117,746</u>	<u>194,516</u>	<u>333,236</u>	<u>909,825</u>	<u>559,171</u>	<u>3,145,244</u>
Noncurrent liabilities:							
Net pension liability	44,188	888,660	-	-	-	92,293	1,025,141
Compensated absences	7,515	39,323	-	-	-	410	47,248
Other postemployment benefits payable	28,233	648,246	-	8,910	10,060	72,123	767,572
Estimated unpaid claims	-	-	-	981,745	-	1,800,220	2,781,965
Total noncurrent liabilities	<u>79,936</u>	<u>1,576,229</u>	<u>-</u>	<u>990,655</u>	<u>10,060</u>	<u>1,965,046</u>	<u>4,621,926</u>
Total liabilities	<u>110,686</u>	<u>2,693,975</u>	<u>194,516</u>	<u>1,323,891</u>	<u>919,885</u>	<u>2,524,217</u>	<u>7,767,170</u>
NET POSITION							
Net investment in capital assets	421,306	22,092,775	789,550	-	-	80,118	23,383,749
Unrestricted	<u>762,611</u>	<u>4,378,154</u>	<u>5,108,589</u>	<u>1,621,603</u>	<u>3,961,935</u>	<u>(1,201,905)</u>	<u>14,630,987</u>
Total net position	<u>\$ 1,183,917</u>	<u>\$ 26,470,929</u>	<u>\$ 5,898,139</u>	<u>\$ 1,621,603</u>	<u>\$ 3,961,935</u>	<u>\$ (1,121,787)</u>	<u>\$ 38,014,736</u>

CITY OF MIDLAND, TEXAS
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended September 30, 2015

	<u>Warehouse Fund</u>	<u>Garage Fund</u>	<u>Technology Fund</u>	<u>Worker's Compensation Self- Insurance Fund</u>	<u>Medical/ Dental Self- Insurance Fund</u>	<u>General Liability Self- Insurance Fund</u>	<u>Total</u>
Operating revenues:							
Billings to other funds	\$ 1,162,470	\$ -	\$ 731,864	\$ 1,134,665	\$ 9,236,684	\$ 579,600	\$ 12,845,283
Motor vehicle repair billings	-	3,899,706	-	-	-	-	3,899,706
Motor vehicle lease charges	-	5,873,492	-	-	-	-	5,873,492
Equipment lease-other	-	130,895	-	-	-	-	130,895
Charges for fuel	-	2,081,942	-	-	-	-	2,081,942
Employee payments	-	-	-	-	2,356,809	-	2,356,809
Total operating revenue	<u>1,162,470</u>	<u>11,986,035</u>	<u>731,864</u>	<u>1,134,665</u>	<u>11,593,493</u>	<u>579,600</u>	<u>27,188,127</u>
Operating expenses:							
Cost of goods sold	864,743	956,523	-	-	-	-	1,821,266
Salaries and fringe benefits	89,824	1,866,417	-	-	-	154,087	2,110,328
Contractual services	18,682	672,844	104,147	91,609	3,750,205	316,111	4,953,598
Maintenance of structure	-	69,272	-	-	-	-	69,272
Maintenance of equipment	-	1,857,402	14,615	-	-	-	1,872,017
Claims expense	-	-	-	607,021	6,307,595	1,253,865	8,168,481
Depreciation expense	50,882	4,282,833	139,138	37,421	-	39,000	4,549,274
Supplies	13	2,853,283	483,648	-	-	1,893	3,338,837
Other expenses	-	130,565	-	-	-	1	130,566
Total operating expenses	<u>1,024,144</u>	<u>12,689,139</u>	<u>741,548</u>	<u>736,051</u>	<u>10,057,800</u>	<u>1,764,957</u>	<u>27,013,639</u>
Operating income (loss)	<u>138,326</u>	<u>(703,104)</u>	<u>(9,684)</u>	<u>398,614</u>	<u>1,535,693</u>	<u>(1,185,357)</u>	<u>174,488</u>
Nonoperating revenue:							
Investment earnings:							
Interest income	3,554	94,525	5,227	20,149	19,956	9,192	152,603
Net increase in the fair value of investments	4,963	71,134	3,877	27,507	27,263	13,032	147,776
Gain on sale of capital assets	-	376,614	-	-	-	-	376,614
Recoveries of damages to city property, net	-	52,499	-	-	-	-	52,499
Other	-	40,311	-	-	7,822	38,121	86,254
Total nonoperating revenue	<u>8,517</u>	<u>635,083</u>	<u>9,104</u>	<u>47,656</u>	<u>55,041</u>	<u>60,345</u>	<u>815,746</u>
Income (loss) before transfers	<u>146,843</u>	<u>(68,021)</u>	<u>(580)</u>	<u>446,270</u>	<u>1,590,734</u>	<u>(1,125,012)</u>	<u>990,234</u>
Contributions	-	45,178	-	-	-	-	45,178
Transfers out	(19,563)	(500,948)	-	-	-	-	(520,511)
Change in net position	127,280	(523,791)	(580)	446,270	1,590,734	(1,125,012)	514,901
Net position – beginning	1,087,688	\$ 27,616,388	\$ 5,898,719	\$ 1,175,333	\$ 2,371,201	\$ 68,922	\$ 38,218,251
Prior period adjustment	(31,051)	(621,668)	-	-	-	(65,697)	(718,416)
Net position-beginning-as restated	1,056,637	26,994,720	5,898,719	1,175,333	2,371,201	3,225	37,499,835
Net position – ending	<u>\$ 1,183,917</u>	<u>\$ 26,470,929</u>	<u>\$ 5,898,139</u>	<u>\$ 1,621,603</u>	<u>\$ 3,961,935</u>	<u>\$ (1,121,787)</u>	<u>\$ 38,014,736</u>

CITY OF MIDLAND, TEXAS
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended September 30, 2015

	Warehouse Fund	Garage Fund	Technology Fund	Worker's Compensation Self- Insurance Fund	Medical/ Dental/ Self- Insurance Fund	General Liability Self- Insurance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	\$ -	\$ 90,904	\$ -	\$ -	\$ 2,324,211	\$ -	\$ 2,415,115
Interfund services provided	1,162,470	11,986,035	731,864	1,134,665	9,236,684	617,721	24,869,439
Payments to suppliers	(899,315)	(6,279,479)	(564,084)	(750,921)	(10,144,780)	(517,800)	(19,156,379)
Payments to employees	(87,654)	(1,824,935)	-	-	-	(162,093)	(2,074,682)
Net cash provided (used) by operating activities	<u>175,501</u>	<u>3,972,525</u>	<u>167,780</u>	<u>383,744</u>	<u>1,416,115</u>	<u>(62,172)</u>	<u>6,053,493</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers out to other funds	(19,563)	(500,948)	-	-	-	-	(520,511)
Net cash provided (used) by noncapital financing activities	<u>(19,563)</u>	<u>(500,948)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(520,511)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Purchases of capital assets	-	(6,980,237)	(314,570)	-	-	-	(7,294,807)
Repayment of loans to other funds	-	98,482	-	-	-	-	98,482
Proceeds from sale of capital assets	-	539,167	-	-	-	-	539,167
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(6,342,588)</u>	<u>(314,570)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,657,158)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchases of investments	(67,054)	-	(159,770)	(235,798)	(100,187)	(33,873)	(596,682)
Proceeds from sales and maturities of investments	97,073	2,258,607	352,928	501,782	672,031	268,878	4,151,299
Interest received	8,591	169,314	9,282	47,901	47,686	23,071	305,845
Net cash provided (used) by investing activities	<u>38,610</u>	<u>2,427,921</u>	<u>202,440</u>	<u>313,885</u>	<u>619,530</u>	<u>258,076</u>	<u>3,860,462</u>
Net increase (decrease) in cash and cash equivalents	194,548	(443,090)	55,650	697,629	2,035,645	195,904	2,736,286
Cash and cash equivalents at beginning of year	243,070	4,010,211	4,572,296	1,256,455	1,682,756	673,266	12,438,054
Cash and cash equivalents at end of year	<u>\$ 437,618</u>	<u>\$ 3,567,121</u>	<u>\$ 4,627,946</u>	<u>\$ 1,954,084</u>	<u>\$ 3,718,401</u>	<u>\$ 869,170</u>	<u>\$ 15,174,340</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss):	\$ 138,326	\$ (703,104)	\$ (9,684)	\$ 398,614	\$ 1,535,693	\$ (1,185,357)	\$ 174,488
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	50,882	4,282,833	139,138	37,421	-	39,000	4,549,274
Other income	-	92,810	-	-	7,822	38,121	138,753
Increase in accounts receivable	-	(1,906)	-	-	(40,420)	-	(42,326)
(Increase) decrease in inventory	(19,462)	1,191	-	-	-	-	(18,271)
Increase in prepaid items	-	(1)	-	-	-	-	(1)
Increase in deferred pension	(6,135)	(118,634)	-	-	-	(8,144)	(132,913)
Increase (decrease) in accounts payable	3,585	274,442	38,326	(31,694)	(95,378)	68,964	258,245
Increase (decrease) in accrued payroll	1,223	18,743	-	-	-	(1,081)	18,885
Increase (decrease) in estimated unpaid claims	-	-	-	(20,597)	6,325	985,106	970,834
Increase in net pension liability	4,942	98,837	-	-	-	8,895	112,674
Increase (decrease) in compensated absences	562	5,018	-	-	-	(10,832)	(5,252)
Increase in other postemployment benefits	1,578	37,518	-	-	-	3,156	42,252
Increase (decrease) in other liabilities	-	(15,222)	-	-	2,073	-	(13,149)
Total adjustments	<u>37,175</u>	<u>4,675,629</u>	<u>177,464</u>	<u>(14,870)</u>	<u>(119,578)</u>	<u>1,123,185</u>	<u>5,879,005</u>
Net cash provided (used) by operating activities	<u>\$ 175,501</u>	<u>\$ 3,972,525</u>	<u>\$ 167,780</u>	<u>\$ 383,744</u>	<u>\$ 1,416,115</u>	<u>\$ (62,172)</u>	<u>\$ 6,053,493</u>
Noncash Investing, Capital and Financing Activities:							
Change in fair value of investments	\$ 4,963	\$ 71,134	\$ 3,877	\$ 27,507	\$ 27,263	\$ 13,032	\$ 147,776
Contributions of capital assets	-	45,178	-	-	-	-	45,178

STATISTICAL SECTION

(Unaudited)

This part of the City of Midland's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the City's overall financial health.

<u>CONTENTS</u>	<u>Page</u>
Financial Trends	117
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	121
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	
Debt Capacity	130
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Demographic and Economic Information	135
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	138
These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the service the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.



Table 1

CITY OF MIDLAND, TEXAS
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Governmental activities										
Net Investment in capital assets	\$ 47,625,042	\$ 53,378,805	\$ 62,688,027	\$ 70,220,858	\$ 74,338,808	\$ 77,139,942	\$ 79,950,737	\$ 95,068,376	\$ 108,776,537	\$ 130,732,360
Restricted	255,331	34,810	156,130	20,367	326,991	6,518,425	9,227,239	12,754,115	15,059,213	20,226,070
Unrestricted	45,834,804	52,877,175	57,985,984	52,799,760	45,035,305	45,315,926	53,230,626	51,770,695	63,586,639	9,120,513
Total governmental activities net position	<u>\$ 93,715,177</u>	<u>\$ 106,290,790</u>	<u>\$ 120,830,141</u>	<u>\$ 123,040,985</u>	<u>\$ 119,701,104</u>	<u>\$ 128,974,293</u>	<u>\$ 142,408,602</u>	<u>\$ 159,593,186</u>	<u>\$ 187,422,389</u>	<u>\$ 160,078,943</u>
Business-type activities										
Net Investment in capital assets	\$ 138,474,174	\$ 146,453,011	\$ 149,714,918	\$ 166,637,943	\$ 169,294,026	\$ 178,169,630	\$ 189,427,031	\$ 216,897,238	\$ 220,763,273	\$ 222,043,318
Restricted	8,195,706	7,826,071	7,826,071	7,826,071	7,826,071	11,615,537	12,228,596	3,560,568	9,026,221	7,890,685
Unrestricted	52,601,112	60,855,833	75,370,522	75,294,643	81,828,896	82,368,737	84,149,910	76,236,521	83,584,394	93,094,258
Total business-type activities net position	<u>\$ 199,270,992</u>	<u>\$ 215,134,915</u>	<u>\$ 232,911,511</u>	<u>\$ 249,758,657</u>	<u>\$ 258,948,993</u>	<u>\$ 272,153,904</u>	<u>\$ 285,805,537</u>	<u>\$ 296,694,327</u>	<u>\$ 313,373,888</u>	<u>\$ 323,028,261</u>
Primary government										
Net Investment in capital assets	\$ 186,099,216	\$ 199,831,816	\$ 212,402,945	\$ 236,858,801	\$ 243,632,834	\$ 255,309,572	\$ 269,377,768	\$ 311,965,614	\$ 329,539,810	\$ 352,775,678
Restricted	8,451,037	7,860,881	7,982,201	7,846,438	8,153,062	18,133,962	21,455,835	16,314,683	24,085,434	28,116,755
Unrestricted	98,435,916	113,733,008	133,356,506	128,094,403	126,864,201	127,684,663	137,380,536	128,007,216	147,171,033	102,214,771
Total primary government net position	<u>\$ 292,986,169</u>	<u>\$ 321,425,705</u>	<u>\$ 353,741,652</u>	<u>\$ 372,799,642</u>	<u>\$ 378,650,097</u>	<u>\$ 401,128,197</u>	<u>\$ 428,214,139</u>	<u>\$ 456,287,513</u>	<u>\$ 500,796,277</u>	<u>\$ 483,107,204</u>

(Unaudited-See Accompanying Independent Auditors' Report)

Table 2

CITY OF MIDLAND, TEXAS
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Expenses										
Governmental activities:										
General government	\$ 11,120,377	\$ 15,915,793	\$ 16,426,985	\$ 18,834,377	\$ 18,971,123	\$ 20,939,401	\$ 20,515,015	\$ 22,645,060	\$ 24,703,911	\$ 28,717,383
Development services	9,200,295	11,318,654	11,221,695	13,479,488	14,369,010	13,837,291	3,534,375	3,833,749	4,049,615	4,017,284
Engineering	-	-	-	-	-	-	10,642,676	12,321,739	14,099,842	16,352,355
Community services	7,228,250	7,963,767	9,200,826	9,739,208	10,084,652	10,137,221	9,933,581	11,396,863	10,958,751	12,116,060
Police	16,296,584	17,502,258	18,937,778	21,965,119	23,156,588	23,312,992	24,025,334	25,827,854	25,341,332	25,392,403
Fire	13,475,104	15,131,600	16,391,606	19,342,454	20,137,685	20,863,640	22,289,161	24,515,017	24,163,432	28,683,479
Other	4,376,474	-	-	-	-	-	-	-	-	-
Interest on long-term debt	995,050	1,071,259	1,085,505	1,152,879	1,103,073	1,028,942	1,221,970	1,271,789	1,955,205	1,817,804
Total governmental activities expenses	<u>62,692,134</u>	<u>68,903,331</u>	<u>73,264,395</u>	<u>84,513,525</u>	<u>87,822,131</u>	<u>90,119,487</u>	<u>92,162,112</u>	<u>101,812,071</u>	<u>105,272,088</u>	<u>117,096,768</u>
Business-type activities:										
Airport	6,912,437	7,541,223	8,047,073	8,690,847	9,201,993	9,295,323	8,835,469	9,367,054	9,592,317	10,327,231
Water and sewer	29,984,197	31,282,624	34,615,012	32,828,147	33,642,297	37,130,696	37,401,624	44,838,072	61,678,752	64,163,946
Sanitation	6,988,197	7,299,073	9,115,773	10,129,743	8,450,443	10,489,726	10,813,252	11,310,111	10,453,364	10,927,308
Sports complex	3,603,742	4,319,956	4,276,725	4,404,185	4,337,123	4,382,696	4,242,836	4,364,030	4,664,912	4,289,430
Golf course	1,448,110	1,502,814	1,478,505	1,903,417	1,923,190	1,910,254	2,056,066	2,204,091	2,287,526	2,519,117
Total business-type activities expenses	<u>48,936,683</u>	<u>51,945,690</u>	<u>57,533,088</u>	<u>57,956,339</u>	<u>57,555,046</u>	<u>63,208,695</u>	<u>63,349,247</u>	<u>72,083,358</u>	<u>88,676,871</u>	<u>92,227,032</u>
Total primary government expenses	<u>\$ 111,628,817</u>	<u>\$ 120,849,021</u>	<u>\$ 130,797,483</u>	<u>\$ 142,469,864</u>	<u>\$ 145,377,177</u>	<u>\$ 153,328,182</u>	<u>\$ 155,511,359</u>	<u>\$ 173,895,429</u>	<u>\$ 193,948,959</u>	<u>\$ 209,323,800</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 736,932	\$ 781,719	\$ 527,757	\$ 447,368	\$ 596,304	\$ 536,478	\$ 620,524	\$ 872,807	\$ 626,796	\$ 814,523
Development services	1,263,840	1,492,539	1,378,365	948,114	818,445	1,781,309	1,998,231	3,940,368	3,867,182	3,282,596
Engineering	-	-	-	-	-	-	1,963	42,250	66,191	938,852
Community services	1,090,698	1,075,048	1,001,491	929,448	923,658	875,790	898,904	833,761	1,225,240	1,820,759
Police	2,641,553	3,045,172	3,741,616	4,035,131	2,393,857	4,105,681	4,272,412	4,278,076	4,348,819	3,848,647
Fire	1,179,917	1,329,561	1,974,577	1,775,129	1,838,814	1,767,777	2,034,214	2,001,975	1,832,028	1,816,971
Operating grants and contributions	2,782,305	1,619,363	1,504,100	2,134,574	2,551,762	1,689,509	1,455,109	2,163,187	1,710,722	1,384,229
Capital grants and contributions	3,036,995	4,408,946	7,295,001	4,661,290	2,996,562	4,603,959	3,725,173	8,532,232	10,066,200	13,503,014
Total governmental activities program revenues	<u>12,732,240</u>	<u>13,752,348</u>	<u>17,422,907</u>	<u>14,931,054</u>	<u>12,119,402</u>	<u>15,360,503</u>	<u>15,006,530</u>	<u>22,664,656</u>	<u>23,743,178</u>	<u>27,409,591</u>
Business-type activities:										
Charges for services:										
Airport	7,456,268	8,139,157	8,663,825	7,549,954	7,572,534	8,017,966	8,816,871	9,239,236	12,533,868	12,515,637
Water and sewer	34,648,349	37,812,622	44,267,408	41,138,165	40,370,745	44,728,124	41,236,729	41,945,697	54,261,913	58,094,221
Sanitation	6,598,321	7,465,121	7,906,457	8,504,251	8,652,565	10,679,562	11,636,597	13,965,037	15,234,536	16,152,502
Sports complex	5,646,149	6,505,378	7,278,806	6,565,148	6,541,457	8,360,882	9,781,813	10,572,117	12,050,902	11,901,462
Golf course	1,248,394	1,364,233	1,491,119	1,905,706	1,822,464	2,061,100	2,348,194	2,549,063	2,326,692	2,152,681
Operating grants and contributions	470,160	441,440	362,610	353,931	454,463	353,020	382,984	62,557	2,238	5,649
Capital grants and contributions	6,381,973	6,447,085	3,640,719	10,518,716	3,643,920	5,383,946	6,324,973	7,950,501	13,022,019	6,910,868
Total business-type activities program revenues	<u>62,449,614</u>	<u>68,175,036</u>	<u>73,610,944</u>	<u>76,535,871</u>	<u>69,388,148</u>	<u>79,584,600</u>	<u>80,528,161</u>	<u>86,284,208</u>	<u>109,432,168</u>	<u>107,733,020</u>
Total primary government program revenues	<u>\$ 75,181,854</u>	<u>\$ 81,927,384</u>	<u>\$ 91,033,851</u>	<u>\$ 91,466,925</u>	<u>\$ 81,507,550</u>	<u>\$ 94,945,103</u>	<u>\$ 95,534,691</u>	<u>\$ 108,948,864</u>	<u>\$ 133,175,346</u>	<u>\$ 135,142,611</u>
Net (Expense)/Revenue										
Governmental Activities	\$ (49,959,894)	\$ (55,150,983)	\$ (55,841,488)	\$ (69,582,471)	\$ (75,702,729)	\$ (74,758,984)	\$ (77,155,582)	\$ (79,147,415)	\$ (81,528,910)	\$ (89,687,177)
Business-type Activities	13,512,931	16,229,346	16,077,856	18,579,532	11,833,102	16,375,905	17,178,914	14,200,850	20,755,297	15,505,988
Total primary government net expense	<u>\$ (36,446,963)</u>	<u>\$ (38,921,637)</u>	<u>\$ (39,763,632)</u>	<u>\$ (51,002,939)</u>	<u>\$ (63,869,627)</u>	<u>\$ (58,383,079)</u>	<u>\$ (59,976,668)</u>	<u>\$ (64,946,565)</u>	<u>\$ (60,773,613)</u>	<u>\$ (74,181,189)</u>

General Revenues and Other Changes in Net Position

Governmental activities:

Taxes											
Property taxes	\$ 25,661,748	\$ 26,419,543	\$ 28,207,188	\$ 29,537,787	\$ 30,381,016	\$ 32,697,674	\$ 34,238,579	\$ 36,441,787	\$ 39,005,229	\$ 40,961,787	
Sales taxes	19,584,476	22,536,098	25,776,037	23,848,005	23,563,357	30,281,637	35,472,615	39,046,477	44,776,484	42,942,587	
Gross receipts taxes	11,841,005	9,905,964	11,082,067	10,507,602	10,640,157	11,232,925	11,210,488	11,427,175	12,732,502	13,600,947	
Hotel-motel taxes	1,461,956	1,959,523	2,459,814	2,657,283	2,165,861	3,085,061	4,606,037	5,768,762	6,512,643	7,835,435	
Other taxes	292,034	345,348	403,169	441,148	415,279	486,648	493,405	570,975	770,432	857,243	
Unrestricted investment earnings	1,994,197	2,951,752	1,894,550	1,339,474	1,113,797	782,769	431,732	(1,087,789)	1,558,324	2,116,971	
Gain on sale of capital assets	219,186	-	-	-	-	-	-	-	-	-	
Miscellaneous	11,620	25,941	40,819	93,921	45,720	1,077,093	22,017	85,365	137,184		
Transfers	3,655,662	3,582,427	517,195	3,368,095	4,037,661	4,388,366	4,115,018	4,079,247	4,183,738	3,353,816	
Total governmental activities	<u>64,721,884</u>	<u>67,726,596</u>	<u>70,380,839</u>	<u>71,793,315</u>	<u>72,362,848</u>	<u>84,032,173</u>	<u>90,589,891</u>	<u>96,331,999</u>	<u>109,676,536</u>	<u>111,668,786</u>	

Business-type activities:

Investment earnings	2,382,130	3,217,004	2,215,935	1,635,709	1,394,895	1,217,372	587,737	767,187	845,612	1,412,725
Transfers	(3,655,662)	(3,582,427)	(517,195)	(3,368,095)	(4,037,661)	(4,388,366)	(4,115,018)	(4,079,247)	(4,183,738)	(3,353,816)
Total business-type activities	<u>(1,273,532)</u>	<u>(365,423)</u>	<u>1,698,740</u>	<u>(1,732,386)</u>	<u>(2,642,766)</u>	<u>(3,170,994)</u>	<u>(3,527,281)</u>	<u>(3,312,060)</u>	<u>(3,338,126)</u>	<u>(1,941,091)</u>
Total primary government	<u>\$ 63,448,352</u>	<u>\$ 67,361,173</u>	<u>\$ 72,079,579</u>	<u>\$ 70,060,929</u>	<u>\$ 69,720,082</u>	<u>\$ 80,861,179</u>	<u>\$ 87,062,610</u>	<u>\$ 93,019,939</u>	<u>\$ 106,338,410</u>	<u>\$ 109,727,695</u>

Changes in Net Position

Governmental Activities	\$ 14,761,990	\$ 12,575,613	\$ 14,539,351	\$ 2,210,844	\$ (3,339,881)	\$ 9,273,189	\$ 13,434,309	\$ 17,184,584	\$ 28,147,626	\$ 21,981,609
Business-type Activities	12,239,399	15,863,923	17,776,596	16,847,146	9,190,336	13,204,911	13,651,633	10,888,790	17,417,171	13,564,897
Total primary government	<u>\$ 27,001,389</u>	<u>\$ 28,439,536</u>	<u>\$ 32,315,947</u>	<u>\$ 19,057,990</u>	<u>\$ 5,850,455</u>	<u>\$ 22,478,100</u>	<u>\$ 27,085,942</u>	<u>\$ 28,073,374</u>	<u>\$ 45,564,797</u>	<u>\$ 35,546,506</u>

(Unaudited-See Accompanying Independent Auditors' Report)

Table 3

CITY OF MIDLAND, TEXAS
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General Fund										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 878,796	\$ 881,945	\$ 919,406	\$ 878,494	\$ 883,493
Reserved	3,143,510	5,060,354	5,601,854	12,232,616	8,966,970	-	-	-	-	-
Unreserved	25,409,316	29,812,023	32,460,043	27,502,467	29,106,932	-	-	-	-	-
Restricted	-	-	-	-	-	195,668	210,897	209,747	218,782	204,080
Committed	-	-	-	-	-	7,728,867	8,486,918	13,353,699	29,431,800	22,298,783
Assigned	-	-	-	-	-	67,166	73,228	79,102	80,863	89,054
Unassigned	-	-	-	-	-	39,704,700	49,024,532	44,298,549	39,031,865	47,657,421
Total general fund	<u>\$ 28,552,826</u>	<u>\$ 34,872,377</u>	<u>\$ 38,061,897</u>	<u>\$ 39,735,083</u>	<u>\$ 38,073,902</u>	<u>\$ 48,575,197</u>	<u>\$ 58,677,520</u>	<u>\$ 58,860,503</u>	<u>\$ 69,641,804</u>	<u>\$ 71,132,831</u>
All Other Governmental Funds										
Reserved	\$ 3,877,898	\$ 7,590,172	\$ 3,176,012	\$ 4,392,945	\$ 6,888,698	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	1,245,470	2,420,879	3,929,760	4,394,896	5,952,978	-	-	-	-	-
Capital projects funds	2,367,582	3,493,158	2,319,159	6,937,027	4,756,115	-	-	-	-	-
Restricted for:										
Debt service	-	-	-	-	-	448,006	413,744	479,598	524,091	778,424
Public safety	-	-	-	-	-	596,708	809,604	567,944	923,395	1,028,685
Court	-	-	-	-	-	596,849	685,740	722,304	807,768	871,016
Communications	-	-	-	-	-	-	3,590,536	3,508,930	6,135,384	2,566,617
Downtown	-	-	-	-	-	644,144	644,886	645,499	645,741	586,906
Building renovations	-	-	-	-	-	1,771,388	7,823,627	7,181,818	7,702,263	7,233,415
Streets and drainage	-	-	-	-	-	6,083,529	8,376,344	7,547,145	12,573,988	7,421,290
Parks and recreation	-	-	-	-	-	525,786	2,359,965	1,430,161	4,515,547	1,130,029
Other capital projects	-	-	-	-	-	42,166	-	-	-	-
Other purposes	-	-	-	-	-	4,774,287	5,433,282	8,768,064	10,609,948	14,749,314
Committed to:										
Building renovations	-	-	-	-	-	269,883	245,817	216,271	(6,044)	43,441
Streets and drainage	-	-	-	-	-	1,015,334	1,482,584	2,568,469	3,558,503	4,168,125
Other purposes	-	-	-	-	-	2,129,687	3,077,538	3,697,842	4,765,461	1,590,756
Total all other governmental funds	<u>\$ 7,490,950</u>	<u>\$ 13,504,209</u>	<u>\$ 9,424,931</u>	<u>\$ 15,724,868</u>	<u>\$ 17,597,791</u>	<u>\$ 18,897,767</u>	<u>\$ 34,943,667</u>	<u>\$ 37,334,045</u>	<u>\$ 52,756,045</u>	<u>\$ 42,168,018</u>

The difference in committed fund balance from the previous year to the current fiscal year is due to completion of a major Radio System upgrade project and the completion of street projects.
The unassigned fund balance can be contributed an increase in revenue over expenses of the previous fiscal year due to the economy in fiscal year 2015.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 4

CITY OF MIDLAND, TEXAS
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Revenues										
Taxes	\$ 58,902,891	\$ 61,060,586	\$ 68,058,393	\$ 67,107,946	\$ 67,077,164	\$ 77,835,427	\$ 86,090,547	\$ 93,263,535	\$ 103,713,258	\$ 106,378,471
Licenses and permits	1,170,553	1,349,074	1,461,320	1,124,144	1,187,504	1,991,056	2,419,466	4,276,854	4,190,869	4,492,100
Fines and forfeitures	2,425,291	2,667,017	3,166,584	3,134,799	3,276,328	3,648,203	3,808,669	3,891,789	3,783,005	3,349,255
Charges for services	2,093,062	2,239,596	2,289,241	2,553,851	2,356,353	2,311,691	2,685,136	2,564,362	2,640,062	3,182,358
Rentals	220,312	214,059	220,283	198,555	211,115	203,293	212,962	302,765	286,614	269,291
Assessments	121,816	109,589	120,613	115,544	116,859	117,117	121,572	133,202	119,055	106,961
Intergovernmental	3,357,245	2,061,721	1,934,972	4,537,251	4,061,605	2,833,751	2,575,756	2,043,366	1,430,101	1,537,981
Investment earnings	1,699,793	2,513,712	1,631,545	1,109,384	974,529	792,232	460,308	(1,054,054)	1,663,401	2,336,321
Contributions and donations	865,966	259,596	205,805	612,493	161,187	1,264,310	277,895	625,989	676,064	583,401
Miscellaneous	450,332	633,704	473,926	674,347	725,415	1,782,060	629,871	764,362	971,567	817,815
Total revenues	<u>71,307,261</u>	<u>73,108,654</u>	<u>79,562,682</u>	<u>81,168,314</u>	<u>80,148,059</u>	<u>92,779,140</u>	<u>99,282,182</u>	<u>106,812,170</u>	<u>119,473,996</u>	<u>123,053,954</u>
Expenditures										
General government	11,222,344	12,170,359	12,213,221	14,083,339	14,314,539	14,797,484	15,370,449	19,451,475	17,694,864	20,216,316
Development services	8,017,698	8,295,919	9,410,143	11,692,087	11,090,190	10,639,275	2,484,995	2,618,009	3,350,847	3,555,322
Engineering							7,700,839	15,188,449	13,905,183	17,431,031
Community services	7,211,703	7,246,431	8,595,533	9,037,633	9,783,237	9,591,163	10,597,142	10,018,185	10,261,957	12,346,085
Police	16,361,191	17,505,378	19,210,537	20,668,423	21,044,525	21,393,542	22,766,719	24,538,644	25,416,580	25,308,241
Fire	13,668,119	15,348,015	16,466,900	18,337,470	18,203,854	18,782,600	20,918,880	22,905,985	24,516,468	26,254,173
Other	4,638,911	4,515,769	4,936,332	5,446,695	5,517,045	4,486,670	5,004,512	6,404,129	8,294,720	10,959,337
Capital outlay	7,717,921	2,965,213	6,336,797	5,806,226	433,004	1,810,455	1,153,962	3,602,650	13,361,266	14,245,722
Debt services:										
Principal	2,484,724	2,691,551	2,808,488	2,274,389	2,530,065	2,812,808	2,891,115	2,818,125	2,607,154	2,849,650
Interest	1,074,354	876,390	1,282,233	887,869	1,325,357	1,040,860	954,843	1,600,143	1,238,337	2,838,210
Debt issuance costs	-	83,852	-	153,789	-	-	157,813	-	327,226	-
Refunding bond issuance costs and escrow	-	-	-	207,720	-	-	-	-	-	-
Paying agents' fees	3,081	3,081	3,143	2,481	1,051	1,051	1,051	1,293	631	1,631
Total expenditures	<u>72,400,046</u>	<u>71,701,958</u>	<u>81,263,327</u>	<u>88,598,121</u>	<u>84,242,867</u>	<u>85,355,908</u>	<u>90,002,320</u>	<u>109,147,087</u>	<u>120,975,233</u>	<u>136,005,718</u>
Excess of revenues over (under) expenditures	(1,092,785)	1,406,696	(1,700,645)	(7,429,807)	(4,094,808)	7,423,232	9,279,862	(2,334,917)	(1,501,237)	(12,951,764)
Other Financing Sources (Uses)								350,000	-	-
Sale of capital assets	323,475	168,000	-	-	-	-	-	-	-	-
Refunding bonds issued	-	-	-	7,708,926	-	-	-	-	3,800,000	-
Issuance of long-term debt	-	6,910,000	-	9,850,132	-	-	13,589,132	-	24,372,306	-
Payment to refunded bond escrow agent	-	-	-	(7,638,159)	-	-	-	-	(4,420,000)	-
Premium on debt issuance	-	181,709	-	281,634	-	-	770,560	-	3,233,327	-
Accrued interest on debt issuance	-	32,093	-	47,160	-	-	499	-	2,177	-
Transfers in	4,343,644	4,377,586	4,423,913	6,111,466	4,778,476	5,055,682	5,042,997	5,150,925	5,406,690	4,672,929
Transfers out	(417,368)	(743,274)	(3,613,026)	(958,229)	(471,926)	(677,643)	(2,534,827)	(592,647)	(4,689,962)	(818,165)
Total other financing sources (uses)	<u>4,249,751</u>	<u>10,926,114</u>	<u>810,887</u>	<u>15,402,930</u>	<u>4,306,550</u>	<u>4,378,039</u>	<u>16,868,361</u>	<u>4,908,278</u>	<u>27,704,538</u>	<u>3,854,764</u>
Net change in fund balances	<u>\$ 3,156,966</u>	<u>\$ 12,332,810</u>	<u>\$ (889,758)</u>	<u>\$ 7,973,123</u>	<u>\$ 211,742</u>	<u>\$ 11,801,271</u>	<u>\$ 26,148,223</u>	<u>\$ 2,573,361</u>	<u>\$ 26,203,301</u>	<u>\$ (9,097,000)</u>
Debt service as a percentage of noncapital expenditures	5.7%	5.3%	5.6%	4.0%	4.8%	4.8%	4.5%	4.0%	3.6%	4.2%

Note: Noncapital expenditures excludes capital expenditures reported in the various functional categories of current expenditures presented above.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 5

CITY OF MIDLAND, TEXAS
Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years

Fiscal Year	Ad Valorem Tax	City Sales Tax	Gross Receipts Tax	Mixed Beverage Tax	Hotel Motel Tax	Miscellaneous	Totals
2006	\$ 25,723,420	\$ 19,584,476	\$ 11,841,005	\$ 232,892	\$ 1,461,956	\$ 59,142	\$ 58,902,891
2007	26,313,653	22,536,098	9,905,964	267,407	1,959,523	77,941	61,060,586
2008	28,337,306	25,776,037	11,082,067	319,331	2,459,814	83,838	68,058,393
2009	29,653,908	23,848,005	10,507,602	355,131	2,657,283	86,017	67,107,946
2010	30,292,510	23,563,357	10,640,157	334,730	2,165,861	80,549	67,077,164
2011	32,749,156	30,281,637	11,232,925	392,121	3,085,061	94,527	77,835,427
2012	34,308,002	35,472,615	11,210,488	383,897	4,606,037	109,508	86,090,547
2013	36,450,146	39,046,477	11,427,175	439,907	5,768,762	131,068	93,263,535
2014	38,921,197	44,776,484	12,732,502	639,530	6,512,643	130,902	103,713,258
2015	41,142,259	42,942,587	13,600,947	731,961	7,835,435	125,282	106,378,471
Change 2006-2015	59.9%	119.3%	14.9%	214.3%	436.0%	111.8%	80.6%

(Unaudited-See Accompanying Independent Auditors' Report)

Table 6

CITY OF MIDLAND, TEXAS
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year Ended September 30,	Real Property	Personal Property	Minerals Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2006	\$ 3,656,062	\$ 610,948	\$ 24,999	\$ 344,419	\$ 3,947,590	\$ 0.6420
2007	4,111,423	682,286	37,335	403,036	4,428,008	0.5870
2008	5,176,698	739,893	38,426	776,942	5,178,075	0.5386
2009	6,141,934	792,798	45,844	971,455	6,009,121	0.4859
2010	6,543,503	808,358	36,343	874,523	6,513,681	0.4568
2011	6,657,433	750,432	51,731	702,824	6,756,772	0.47285
2012	6,844,436	806,228	47,912	603,653	7,094,923	0.47054
2013	7,329,781	931,865	60,452	600,770	7,721,328	0.461088
2014	8,358,847	1,075,642	67,736	664,669	8,837,556	0.431927
2015	9,520,300	1,454,108	86,535	817,087	10,243,856	0.393891

Source: Midland Central Appraisal District

Note: Property in the city is reassessed each year. Property is assessed at actual value; therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 7

**CITY OF MIDLAND, TEXAS
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per \$100 of assessed value)**

Year	City Direct Rates			Overlapping Rates ^a			
	Basic Rate	General Obligation Debt Service	Total Direct	Midland Independent School District	Midland Junior College	Midland County	Midland County Hospital District
2006	\$ 0.5545	\$ 0.0875	0.6420	\$ 1.6275	\$ 0.2247	\$ 0.2885	\$ 0.1684
2007	0.5102	0.0768	0.5870	1.4575	0.2062	0.2488	0.1571
2008	0.4633	0.0753	0.5386	1.1681	0.1911	0.2305	0.1423
2009	0.4352	0.0507	0.4859	1.1651	0.1729	0.2075	0.1202
2010	0.3975	0.0593	0.4568	1.1526	0.1719	0.2118	0.1813
2011	0.41719	0.05566	0.47285	1.1451	0.1699	0.2118	0.1663
2012	0.41845	0.05209	0.47054	1.1411	0.1679	0.1982	0.1622
2013	0.40405	0.05704	0.461088	1.1301	0.1332	0.1402	0.1251
2014	0.385719	0.046208	0.431927	1.1401	0.1244	0.1265	0.1183
2015	0.337480	0.056411	0.393891	1.1401	0.1259	0.1408	0.1198

Source: Midland Central Appraisal District

Note: Rates for debt service are set based on each year's requirements.

^a Overlapping rates are those of local and county governments that apply to property owners within the City of Midland.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 8

**CITY OF MIDLAND, TEXAS
Principal Property Tax Payers
Current Year and Nine Years Ago**

Fiscal Year 2015			Fiscal Year 2005		
Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Propetro Services (VEH)	235,090,000	2.04%	Oncor Electric Delivery Co	41,075,710	1.11%
Diamondback E&P LLC	193,854,320	1.68%	Southwestern Bell Telephone	37,651,710	1.02%
Viper Energy Partners LLC.	80,003,410	0.69%	Midland Park Mall LP	24,589,570	0.66%
RSP Permian LLC	74,914,130	0.65%	Claydesta Buildings LP	15,255,940	0.41%
Endeavor Energy Resources LP	52,711,490	0.46%	John L Cox	14,408,290	0.39%
Pioneer Natural Resources USA	51,782,300	0.45%	Midland FC Ltd	11,565,270	0.31%
Oncor Electric FKA:TXU Ele (10)	50,335,560	0.44%	Camco Division of STC	10,767,120	0.29%
Basin Energy Services	49,229,450	0.43%	Energas Company	9,496,500	0.26%
Claydesta Buildings LP	38,075,770	0.33%	A T & T Communications	9,431,140	0.25%
Mall at Midland Park LLC	37,243,920	0.32%	Wal-Mart Stores	9,388,000	0.25%
	<u>863,240,350</u>	<u>7.49%</u>			
Total	<u>\$ 863,240,350</u>	<u>7.49%</u>	Total	<u>\$ 183,629,250</u>	<u>4.96%</u>

Source: Midland Central Appraisal District

(Unaudited-See Accompanying Independent Auditors' Report)

Table 9

CITY OF MIDLAND, TEXAS
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended September 30,	Taxes Levied for the Fiscal Year	Adjustments to the Levy	Adjusted Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections	
				Amount	Percentage of Levy		Amount	Percentage of Levy
2006	\$ 25,343,526	\$ (47,038)	\$ 25,296,488	\$ 24,907,178	98.46%	370,160.97	\$ 25,277,339	99.92%
2007	25,992,405	(139,087)	25,853,318	25,457,058	98.47%	377,387.43	25,834,446	99.93%
2008	27,889,113	(218,182)	27,670,931	27,287,802	98.62%	363,591.59	27,651,393	99.93%
2009	29,198,318	(107,874)	29,090,445	28,644,131	98.47%	426,429.10	29,070,561	99.93%
2010	29,754,496	(69,714)	29,684,783	29,260,114	98.57%	399,834.09	29,659,948	99.92%
2011	31,949,398	(31,512)	31,917,886	31,522,686	98.76%	361,615.67	31,884,302	99.89%
2012	33,384,453	34,411	33,418,864	33,021,270	98.81%	355,957.27	33,377,228	99.88%
2013	35,601,095	13,875	35,614,969	35,221,625	98.90%	337,277.33	35,558,903	99.84%
2014	38,171,791	13,875	38,185,665	35,221,625	92.24%	344,803.27	35,566,428	93.14%
2015	40,349,624	284,668	40,634,292	40,195,420	98.92%	-	40,195,420	98.92%

Source: Midland Central Appraisal District

Table 10

CITY OF MIDLAND, TEXAS
Taxable Sales by Category
Last Ten Calendar Years
(in thousands of dollars)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Agriculture, Forestry, Fishing, Hunting	\$ 61	\$ 42	\$ 6	\$ 9	\$ 2	\$ 1	\$ 3	\$ 2	\$ 2	\$ 51
Mining	116,080	139,760	157,197	183,665	131,288	259,423	468,320	538,191	449,326	570,842
Utilities	1,280	1,357	1,701	4,128	1,614	1,109	12	215	484	363
Construction	41,189	48,495	60,430	65,047	54,739	69,073	90,610	127,203	150,347	154,455
Manufacturing	39,072	43,380	49,102	54,214	46,183	53,011	71,407	80,801	94,079	91,330
Wholesale Trade	99,366	120,684	195,254	403,058	163,054	240,314	327,609	324,387	379,125	359,109
Retail Trade	906,881	966,680	999,585	1,043,751	984,145	1,060,820	1,249,127	1,332,609	1,440,110	1,577,050
Transportation, Warehousing	1,413	3,157	4,394	5,158	5,645	10,210	17,847	30,790	29,116	35,188
Information	41,354	43,985	42,621	43,895	41,168	43,214	49,424	53,460	59,935	78,034
Finance, Insurance	2,461	3,142	3,848	5,265	8,570	3,843	3,978	4,248	4,184	4,990
Real Estate, Rental, Leasing	17,134	22,071	31,128	46,016	28,232	37,188	64,100	82,602	92,640	98,098
Professional, Scientific, Technical Svc	48,672	64,733	78,849	69,681	41,756	73,569	86,885	130,234	107,340	99,282
Management of Companies, Enterprises	6,114	4,586	-	-	-	-	1	-	-	-
Admin, Support, Waste Mgmt, Remed	35,324	33,316	34,491	37,813	38,487	37,205	41,560	48,334	58,667	65,082
Educational Services	429	448	592	537	637	646	601	201	565	412
Health Care, Social Assistance	748	995	1,037	1,957	2,075	2,220	2,875	3,575	3,931	4,111
Arts, Entertainment, Recreation	13,038	13,653	21,648	25,214	23,935	24,042	26,962	33,916	37,669	42,957
Accommodation, Food Services	156,470	177,495	191,076	213,062	207,058	222,912	257,748	294,036	314,494	359,413
Other Services	36,107	41,859	45,827	49,190	43,962	48,100	59,119	73,895	73,294	92,593
Public Administration	1,289	2,916	6,409	1,467	1,593	1,846	1,976	2,146	2,268	9,677
Other	327	3	-	-	10,522	-	-	-	3	-
Total	\$ 1,564,809	\$ 1,732,757	\$ 1,925,195	\$ 2,253,127	\$ 1,834,665	\$ 2,188,746	\$ 2,820,164	\$ 3,160,845	\$ 3,297,579	\$ 3,643,037
City direct sales tax rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Source: Texas Comptroller of Public Accounts

Note: Category changes occurred in 2002 due to National American Industry Classification System revisions.

Table 11

CITY OF MIDLAND, TEXAS
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Fiscal Year	City Direct Rate	Midland County	Midland Football/Soccer and Baseball Complex Development Corporation	Midland Development Corporation
2006	1.00%	0.50%	0.25%	0.25%
2007	1.00%	0.50%	0.25%	0.25%
2008	1.00%	0.50%	0.25%	0.25%
2009	1.00%	0.50%	0.25%	0.25%
2010	1.00%	0.50%	0.25%	0.25%
2011	1.00%	0.50%	0.25%	0.25%
2012	1.00%	0.50%	0.25%	0.25%
2013	1.00%	0.50%	0.25%	0.25%
2014	1.00%	0.50%	0.25%	0.25%
2015	1.00%	0.50%	0.25%	0.25%

(Unaudited-See Accompanying Independent Auditors' Report)

Table 12

CITY OF MIDLAND, TEXAS
Sales Tax Revenue Payers by Industry
Current Calendar Year and Nine Years Ago
(in thousands of dollars)

	<u>2014</u>				<u>2005</u>			
	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Tax Liability</u>	<u>Percentage of Total</u>	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Tax Liability</u>	<u>Percentage of Total</u>
Agriculture, Forestry, Fishing, Hunting	10	0.20 %	\$ 51	0.00 %	12	0.27 %	\$ 61	0.00 %
Mining	310	6.11	570,842	15.67	160	3.54	28,915	1.95
Utilities	11	0.22	362	0.01	10	0.22	1,280	0.09
Construction	416	8.20	154,454	4.24	320	7.09	41,652	2.81
Manufacturing	274	5.40	91,329	2.51	180	3.99	37,400	2.52
Wholesale Trade	268	5.28	359,058	9.86	229	5.07	85,554	5.77
Retail Trade	1,609	31.71	1,577,050	43.29	1,703	37.72	921,833	62.21
Transportation, Warehousing	57	1.12	35,187	0.97	29	0.64	1,420	0.10
Information	63	1.24	78,034	2.14	113	2.50	50,010	3.37
Finance, Insurance	45	0.89	4,989	0.14	42	0.93	2,418	0.16
Real Estate, Rental, Leasing	209	4.12	98,097	2.69	114	2.52	17,182	1.16
Professional, Scientific, Technical Svc	357	7.04	99,281	2.73	310	6.87	48,871	3.30
Management of Companies, Enterprises	3	0.06	-	-	7	0.16	6,070	0.41
Admin, Support, Waste Mgmt, Remed	261	5.14	65,082	1.79	299	6.62	30,222	2.04
Educational Services	63	1.24	411	0.01	45	1.00	469	0.03
Health Care, Social Assistance	45	0.89	4,111	0.11	35	0.78	738	0.05
Arts, Entertainment, Recreation	120	2.36	42,956	1.18	62	1.37	13,067	0.88
Accommodation, Food Services	482	9.50	359,413	9.87	346	7.66	157,139	10.60
Other Services	435	8.57	92,592	2.54	409	9.06	36,210	2.44
Public Administration	6	0.12	9,677	0.27	4	0.09	1,289	0.09
Nonclassifiable	-	-	-	-	-	-	-	-
Other	30	0.59	-	-	86	1.90	24	0.00
Total	<u>5,074</u>	<u>100.00 %</u>	<u>\$ 3,642,976</u>	<u>100.00 %</u>	<u>4,515</u>	<u>100.00 %</u>	<u>\$ 1,481,824</u>	<u>100.00 %</u>

Source: Texas Comptroller of Public Accounts

Notes: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the city's revenue.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 13

CITY OF MIDLAND, TEXAS
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business-Type Activities				Capital Leases	Total Primary Government	Percentage of Personal Income ^a	Per Capita ^a
	General Obligation Bonds	Certificates of Obligation	Other Obligations	Revenue Bonds	General Obligation Refunding Bonds	Certificates of Obligation	Other Obligations				
2006	1,860,000	20,396,319	730,000	25,575,000	40,182,231	5,786,487	47,650	-	94,577,687	1.70%	745
2007	935,000	25,771,493	665,000	18,810,000	38,477,600	59,537,901	43,900	-	144,240,894	2.25%	1,107
2008	-	23,949,136	595,000	17,385,000	36,697,775	58,211,881	39,850	-	136,878,642	2.01%	1,026
2009	7,747,929	24,146,486	525,000	15,895,000	35,295,650	55,529,561	35,400	-	139,175,026	1.51%	1,015
2010	6,285,485	23,085,494	450,000	14,325,000	33,258,079	53,302,405	-	-	130,706,463	1.74%	927
2011	4,793,522	21,785,385	370,000	12,685,000	30,315,663	50,013,416	-	-	119,962,986	1.38%	846
2012	3,281,661	34,760,320	285,000	10,955,000	27,246,725	65,222,949	-	-	141,751,655	1.26%	978
2013	2,145,786	33,066,162	195,000	-	24,036,761	63,315,952	-	197,320,677	320,080,338	2.54%	2,110
2014	5,200,324	54,205,556	100,000	-	21,499,547	63,052,883	-	229,630,333	373,688,643	2.75%	2,384
2015	3,828,678	52,416,186	-	-	17,726,630	60,636,482	-	232,058,693	366,666,669	2.40%	2,273

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

^a See Table 18 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 14

CITY OF MIDLAND, TEXAS
Ratios of Net General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Bonded Debt Outstanding			Resources Restricted for Repayment of Outstanding Debt Principal	Net General Bonded Debt	Percentage of Actual Taxable Value ^a of Property	Net General Bonded Debt Per Capita ^b
	General Obligation Bonds	Certificates of Obligation	Total				
2006	\$ 42,042,231	\$ 26,182,806	\$ 68,225,037	\$ 336,219	\$ 67,888,818	1.72%	\$ 753
2007	39,412,600	85,441,742	124,854,342	328,541	\$ 124,525,801	2.81%	1,385
2008	36,697,775	82,256,429	118,954,204	245,073	\$ 118,709,131	2.29%	1,167
2009	43,043,579	79,739,718	122,783,297	328,948	\$ 122,454,349	2.04%	1,374
2010	39,543,564	76,425,526	115,969,090	419,353	\$ 115,549,737	1.77%	939
2011	35,109,185	71,816,524	106,925,709	448,006	\$ 106,477,703	1.58%	965
2012	30,528,386	99,988,103	130,516,489	413,744	\$ 130,102,745	1.83%	1,421
2013	26,182,547	96,382,114	122,564,661	479,598	\$ 122,085,063	1.58%	1,313
2014	26,699,871	117,258,439	143,958,310	524,091	\$ 143,434,219	1.62%	1,405
2015	21,555,308	113,052,668	134,607,976	778,424	\$ 133,829,552	1.31%	1,239

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

^a See Table 6 for property value data.

^b See Table 18 for per capita data.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 15

CITY OF MIDLAND, TEXAS
Direct and Overlapping Governmental Activities Debt
As of September 30, 2015

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable^a</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Midland Independent School District	\$ 256,784,624	57.41%	\$ 147,420,053
Midland Junior College	39,172,933	53.98%	21,145,549
Midland County	18,140,000	51.79%	9,394,706
Midland County Hospital District	103,720,000	50.77%	<u>52,658,644</u>
Subtotal, overlapping debt			230,618,952
City of Midland (direct debt)			<u>56,244,864</u>
Total direct and overlapping debt			<u><u>\$ 286,863,816</u></u>

Sources: Assessed value data used to estimate applicable percentages provided by the Midland Central Appraisal District and Assessment Debt outstanding data provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Midland. This process recognizes that, when considering the city's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

^a For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 16

CITY OF MIDLAND, TEXAS
Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

Debt Margin Calculation for Fiscal Year 2015	
Assessed value	\$ 10,243,856
Debt limit (8% of assessed value)	819,508
Debt applicable to limit:	
Total bonded debt	129,095
Less:	
Net assets in Debt Service Fund	(778)
Water and Sewer bonds	(1,819)
Airport bonds	(963)
Sports Complex bonds	(1,389)
Golf Course bonds	(147)
Total net debt applicable to limit	<u>123,999</u>
Debt margin	<u>\$ 695,509</u>

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Debt limit	\$ 315,807	\$ 354,241	\$ 414,246	\$ 480,730	\$ 521,094	\$ 540,542	\$ 567,594	\$ 617,706	\$ 707,004	\$ 819,508
Total net debt applicable to limit	<u>89,167</u>	<u>135,646</u>	<u>129,604</u>	<u>131,476</u>	<u>122,737</u>	<u>111,659</u>	<u>131,479</u>	<u>116,534</u>	<u>133,597</u>	<u>123,999</u>
Debt margin	<u>\$ 226,640</u>	<u>\$ 218,595</u>	<u>\$ 284,642</u>	<u>\$ 349,254</u>	<u>\$ 398,357</u>	<u>\$ 428,883</u>	<u>\$ 436,115</u>	<u>\$ 501,172</u>	<u>\$ 573,407</u>	<u>\$ 695,509</u>
Total net debt applicable to the limit as a percentage of debt limit	28.23%	38.29%	31.29%	27.35%	23.55%	20.66%	23.16%	18.87%	18.90%	15.13%

Note: The Constitution and Statutes of the state of Texas and the Charter of the City of Midland do not provide for a legal debt limit. The 8% debt limit rate used herein is that recommended by the Finance Advisory Board of the City of Midland and adopted by the City Council as a guideline of safe debt limit.

Included in the total amount of debt applicable to debt limit is \$58,070,000 Tax and Limited Pledge Revenue Certificates of Obligation and \$1,145,000 Combination Tax and Revenue Refunding Bonds; and \$3,140,000 Tax and Airport Subordinate Lien Revenue Certificates of Obligation; and \$1,874,932 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation; and \$17,495,000 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation. Principal and interest on these certificates are being financed by the Water and Sewer Fund, Airport Fund, and the Golf Course Fund, and the Scharbauer Sports Complex Fund, respectively.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 17

**CITY OF MIDLAND, TEXAS
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year	Water and Sewer Revenue Bonds					Airport Revenue Bonds				
	Gross Revenue ^a	Operating Expense ^b	Net Revenue Available for Debt Service	Revenue Bond Debt Service ^c	Coverage	Gross Revenue ^a	Operating Expense ^b	Net Revenue Available For Debt Service	Revenue Bond Debt Service ^c	Coverage
2006	\$ 36,551,272	\$ 26,941,508	\$ 9,609,764	\$ 2,898,879	3.31	\$ 7,711,547	\$ 4,701,521	\$ 3,010,026	\$ 160,913	18.71
2007	38,843,893	26,519,562	12,324,331	2,273,232	5.42	8,435,823	4,891,659	3,544,164	151,149	23.45
2008	44,358,068	29,955,214	14,402,854	2,204,304	6.53	8,933,959	5,269,760	3,664,200	-	-
2009	42,384,339	29,737,767	12,646,572	2,134,553	5.92	7,799,712	5,678,225	2,121,487	-	-
2010	41,059,387	29,904,315	11,155,072	2,140,761	5.21	7,928,367	6,081,691	1,846,676	-	-
2011	45,273,768	32,305,890	12,967,878	2,121,268	6.11	8,237,826	5,725,677	2,512,149	-	-
2012	41,572,651	30,434,690	11,137,961	2,064,539	5.39	9,076,228	5,493,295	3,582,933	-	-
2013 ^d	45,643,890	37,058,319	8,585,571	-	-	9,321,595	5,859,056	3,462,539	-	-
2014 ^d	54,687,506	39,497,509	15,189,997	-	-	12,608,260	6,017,131	6,591,129	-	-
2015 ^d	58,926,962	39,148,926	19,778,036	-	-	12,662,890	6,549,968	6,112,922	-	-

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

^a The sum of operating revenue and net nonoperating income, excluding interest expense, reduced by interest income from investments by funds restricted for construction.

^b Total expense exclusive of depreciation, interest, and amortization expenses.

^c Excludes debt defeasance transactions.

^d City's Water and Sewer Revenue Bonds debt - retired 2013

(Unaudited-See Accompanying Independent Auditors' Report)

Table 18

**CITY OF MIDLAND, TEXAS
Demographic and Economic Statistics
Last Ten Calendar Years**

<u>Year</u>	<u>Population</u>	<u>Personal Income (in thousands of dollars)</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2005	101,033	\$ 5,186,213	\$ 43,044	34.1	20,622	3.7%
2006	102,073	6,067,570	49,174	34.1	20,601	3.4%
2007	104,156	6,588,769	52,258	34.2	20,293	3.2%
2008	106,499	7,706,973	59,670	34.2	21,310	2.9%
2009	108,896	7,166,734	54,164	34.2	20,565	5.5%
2010	111,147	7,699,660	56,212	33.1	20,504	5.3%
2011	113,846	9,144,318	65,173	33.4	22,130	4.4%
2012	119,385	12,595,330	83,049	33.6	22,017	3.5%
2013	121,999	13,573,085	86,574	33.1	23,299	2.6%
2014	132,503	15,300,461	94,863	33.1	24,428	3.3%

Sources: Population estimates are prepared by City of Midland personnel. US Census population is used in census years. Personal income and per capita personal income provided by Bureau of Economic Analysis. Median age provided by Midland Development Corporation. School enrollment provided by Midland Independent School District. Unemployment data provided by Bureau of Labor Statistics.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 19

**CITY OF MIDLAND, TEXAS
Principal Employers
Current Year and Nine Years Ago**

2015			2006		
<u>Employer</u>	<u>Employees</u>	<u>Percentage of Total City Employment</u>	<u>Employer</u>	<u>Employees</u>	<u>Percentage of Total City Employment</u>
Midland Independent School District	3,028	3.24%	Midland Independent School District	2,847	4.24%
Midland Memorial Hospital	1,977	2.11%	Key Energy Services, Inc.	2,200	3.27%
Concho Resources	1,117	1.19%	Basic Energy Services	1,500	2.23%
Dawson Geophysical	1,043	1.12%	Warren Equipment Companies	1,493	2.22%
City of Midland	955	1.02%	Midland Memorial Hospital and Medical Center	1,409	2.10%
Wal-Mart	891	0.95%	Key Energy Pressure Pumping Services	1,200	1.79%
Compressor System Inc.	786	0.84%	Midland College	1,200	1.79%
Midland College	784	0.84%	Cingular Wireless	1,100	1.64%
Albertson	700	0.75%	City of Midland	897	1.33%
Pro-Petro Services	648	0.69%	Oxy Permian USA, Inc	800	1.19%
Total	<u><u>11,929</u></u>	<u><u>12.76%</u></u>		<u><u>14,646</u></u>	<u><u>21.79%</u></u>

Source: Midland Chamber of Commerce, Bureau of Labor Statistics, individual employers consider this proprietary information and may be estimated

Table 20

CITY OF MIDLAND, TEXAS
Full-time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General government										
Administration	6	5	5	6	5	5	8	9	9	10
Support services	98	118	120	123	120	122	114	113	119	123
Fiscal management	15	15	15	17	17	18	17	16	15	15
Development services	88	96	93	105	96	92	89	31	36	37
Engineering	-	-	-	-	-	-	-	58	59	71
Community services	62	66	65	72	68	65	70	72	65	67
Police	206	206	208	222	220	223	225	226	214	234
Fire	187	190	193	191	191	184	181	178	198	204
Other	27	1	2	1	1	1	-	1	-	-
Airport	26	26	25	30	29	27	26	29	30	28
Water and sewer	96	100	96	104	93	88	86	84	80	94
Sanitation	45	46	48	51	46	48	51	51	47	58
Sports complex	-	-	-	-	-	-	-	-	-	-
Golf course	10	9	8	10	10	8	9	9	10	11
Total	866	878	878	932	896	881	876	877	882	952

Source: City departments

(Unaudited-See Accompanying Independent Auditors' Report)

Table 21

CITY OF MIDLAND, TEXAS
Operating Indicators by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Development services										
Street resurfacing (miles)	10.43	6.96	10.51	13.03	-	16.51	-	10.57	2.10	8.96
Potholes repaired	14,544	15,835	12,755	17,414	39,622	8,495	19,794	8,939	31,538	14,801
Community services										
Animal control animals handled	10,690	11,229	10,906	10,711	8,472	6,706	7,087	6,823	6,966	7,040
Health department immunizations given	15,275	19,757	22,372	25,452	22,251	22,989	16,521	13,183	16,815	21,441
Police										
Traffic citations	14,945	13,774	18,354	18,318	17,076	16,364	17,795	20,332	16,924	15,124
Parking citations	6,131	4,277	5,173	4,468	4,111	4,539	3,508	898	2,893	3,049
Criminal misdemeanor citations	6,687	6,624	6,583	5,713	5,198	5,054	4,993	4,587	4,629	4,825
Fire										
Emergency responses	7,238	7,484	8,860	8,873	10,829	12,674	10,175	14,103	15,234	15,369
Fires extinguished	606	537	600	661	543	818	458	531	501	501
Inspections	3,895	4,502	6,117	5,843	6,647	5,246	5,168	7,175	7,446	135
Airport										
Major airlines	3	3	4	3	3	4	4	4	4	4
Passengers boardings	466,419	489,369	496,911	433,738	426,288	463,874	365,991	499,170	529,357	527,315
Commercial Landings	8,290	8,580	8,277	7,691	7,936	7,765	5,988	9,026	9,654	9,632
Water and sewer										
New accounts - net	1,188	1,056	916	249	260	523	320	632	1,592	1,648
Water main breaks	42	84	41	54	61	79	81	74	81	99
Average daily consumption (MGD)	23.747	20.867	24.516	24.308	22.821	23.531	15.532	15.717	12.765	12.616
Peak daily consumption (MGD)	43.360	33.971	42.349	42.347	40.041	35.374	27.116	23.198	20.441	20.610
Average daily sewage treatment (MGD)	10.950	12.025	11.665	11.663	10.005	10.553	10.123	9.241	9.162	8.849
Sanitation										
Refuse collected (tons)	149,514	171,795	188,450	210,373	180,422	200,711	195,663	223,796	252,248	272,533
Recyclables collected (tons)	4,448	4,774	5,020	1,787	2,016	1,547	1,506	1,315	1,383	1,812
Sports complex										
Baseball stadium attendance ^a	30,462	31,366	332,497	325,064	329,688	322,272	331,195	343,615	362,999	382,403
Football/soccer stadium attendance	181,043	179,677	162,354	172,977	167,086	197,665	123,475	105,600	132,064	123,681
Golf course										
Attendance	54,572	59,933	64,451	62,940	57,104	60,236	63,205	68,291	56,636	51,040
Tournaments	125	150	118	89	90	90	82	88	71	81

Source: City departments

Notes: N/A - Data not available

^a Beginning fiscal year 2008, attendance for baseball games, concerts, and outdoor events are included in the count for baseball stadium attendance.

(Unaudited-See Accompanying Independent Auditors' Report)

Table 22

CITY OF MIDLAND, TEXAS
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Development services										
Streets - paved (miles)	574	566	571	584	736	741	597	596	607	613
Streets - unpaved (miles)	16	14	12	12	29	28	33	14	19	35
Alleys - paved (miles)	103	109	123	125	133	133	128	136	139	142
Streetlights	5,523	5,667	6,020	6,005	6,050	6,096	6,209	6,272	6,321	6,321
Signalized locations	117	117	116	116	117	118	118	118	118	114
Community services										
Parks acreage	1,256	1,256	1,256	1,256	1,275	1,275	1,275	1,342	1,342	1,342
Playgrounds	38	40	40	40	39	39	39	39	39	40
Baseball/softball diamonds	82	82	64	64	64	64	64	64	64	64
Football/soccer fields	56	56	52	52	49	49	49	49	49	49
Community Centers	1	1	1	1	1	1	1	1	1	1
Senior Centers	2	2	2	2	2	2	2	2	2	2
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Marked patrol units	116	130	128	114	110	138	138	160	151	61
Fire										
Stations	9	9	9	9	9	9	9	9	9	10
Airport										
Primary runway (feet)	9,501	9,501	9,501	9,501	9,501	9,501	9,501	9,501	9,501	9,501
Primary crosswind runway (feet)	8,305	8,305	8,302	8,302	8,302	8,302	8,302	8,302	8,302	8,302
General aviation runways (feet)	8,944	8,944	8,944	8,944	8,944	8,944	8,944	8,944	8,944	8,944
Water and sewer										
Water mains (miles)	805	818	838	861	668	771	782	714	823	835
Fire hydrants	2,998	3,121	3,202	3,301	3,297	3,425	3,418	3,412	3,678	3,716
System capacity (million gallons)	51	51	51	51	51	51	51	55	55	
Sanitary sewers (miles)	572	577	591	600	527	585	591	555	625	636
Storm sewers (miles)	54	46	47	47	43	43	44	44	46	64
Sanitation										
Refuse trucks	38	43	42	42	43	46	37	38	43	45
Sports complex										
Stadiums	2	2	2	2	2	2	2	2	2	2
Golf course										
Courses	2	2	2	2	2	2	2	2	2	2
Holes	36	36	36	36	36	36	36	36	36	36

Source: City departments

Notes: N/A - Data not available

(Unaudited-See Accompanying Independent Auditors' Report)



SUPPLEMENTAL SECTION

(Unaudited)

The supplemental section contains certain bond and financial information presented in compliance with Securities and Exchange Commission Rule 15c2-12, as amended.

TAX SUPPORTED DEBT

(Unaudited)

City of Midland, Texas

Table 1 - Valuation, Exemptions and General Obligation Debt

2015 Market Valuation Established By Midland Central Appraisal District (excluding totally exempt property)		\$ 11,855,642,252
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead Exemptions	\$ 266,743,799	
Disabled Veterans	4,719,420	
Abatements	0	
Open-Space and Land Use Restrictions and Tax Increment Value	55,329,246	326,792,465
2015 Taxable Assessed Valuation		\$ 11,528,849,787
City Funded Debt Payable From Ad Valorem Taxes (as of 9-30-15)		
General Obligation Bonds and Certificates of Obligation (1)	\$ 129,095,000	
Funded Debt Payable from Ad Valorem Taxes		\$ 129,095,000
Less: Self Supporting Debt (2)		
Scharbauer Sports Complex General Obligation Debt	\$ 15,835,000	
Water and Sewer General Obligation Debt	56,985,000	
Airport General Obligation Debt	1,605,000	74,425,000
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 54,670,000
Interest and Sinking Fund (as of 9-30-15) (3)		\$ 925,136
Ratio Funded Debt to Taxable Assessed Valuation		1.12%
Ratio General Purpose Funded Debt to Taxable Assessed Valuation		0.47%
2016 Estimated Population	128,894	
Per Capita 2016 Taxable Assessed Valuation	\$ 89,444.43	
Per Capita Total Funded Debt	\$ 1,001.56	
Per Capita General Purpose Funded Debt	\$ 424.15	

(1) The above statement of indebtedness includes no Waterworks and Sewer System Revenue Bonds as final payment on the last outstanding revenue bond was made on March 1, 2013 . The statement also does not include any Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1999 as all outstanding bonds were redeemed on April 3, 2013.

(2) The City provides for debt service on general obligation debt issued to fund a Football /Soccer and Baseball Sports Complex and Airport improvements from surplus (net) revenues of these systems. Included in the net revenues of the Scharbauer Sports Complex are receipts from a 1/4 of 1% sales tax received from the Midland Football/Soccer and Baseball Complex Development Corporation.

"Scharbauer Sports Complex General Obligation Debt" consists of \$15,835,000 General Obligation Refunding Bonds, Series 2006B

"Water and Sewer General Obligation Debt" consists of \$42,010,000 Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007 and \$585,000 Tax and Revenue Refunding Bonds, Series 2007 and \$14,390,000 Tax and Limited Pledge Revenue Certificates of 2012 Certificates of Obligation.

"Airport General Obligation Debt" consists of \$1,605,000 General Obligation Refunding Bonds, Series 2006A.

(3) Excludes \$1,389,368 to the credit of the Interest and Sinking Fund for Scharbauer Sports complex General Obligation Debt, \$1,819,185 to the credit of the Water and Sewer General Obligation Debt, and \$962,770 to the credit of the Interest and Sinking Fund for Airport General Obligation Debt.

City of Midland, Texas

Table 2 - Taxable Assessed Valuations by Category

Category	Taxable Appraised Value for Fiscal Year Ended 9-30					
	2016		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 7,182,037,920	58.11%	\$ 6,566,069,700	59.36%	\$ 5,707,614,570	60.07%
Real, Residential, Multi-Family	641,767,780	5.19%	605,596,170	5.48%	543,209,910	5.72%
Real, Vacant Lots/Tracts	285,542,235	2.31%	252,255,175	2.28%	226,359,700	2.38%
Real, Acreage (Land Only)	134,194,790	1.09%	131,933,230	1.19%	133,623,230	1.41%
Real, Farm and Ranch Improvements	41,466,360	0.34%	36,573,560	0.33%	32,233,230	0.34%
Real, Commercial and Industrial	2,237,851,830	18.11%	1,912,483,020	17.29%	1,699,367,430	17.88%
Real, Oil, Gas and Other Mineral Reserves	211,147,575	1.71%	86,534,550	0.78%	67,736,295	0.71%
Real and Tangible Personal, Utilities	161,088,750	1.30%	174,194,090	1.57%	121,906,180	1.28%
Tangible Personal, Commercial and Industrial	1,387,155,670	11.22%	1,233,577,870	11.15%	914,654,730	9.63%
Tangible Personal, Other	14,832,090	0.12%	7,246,580	0.07%	3,977,540	0.04%
Real Property, Inventory (1)	62,153,380	0.50%	54,478,610	0.49%	51,542,520	0.54%
Total Appraised Value Before Exemptions	\$ 12,359,238,380	100.00%	\$ 11,060,942,555	100.00%	\$ 9,502,225,335	100.00%
Less: Total Exemptions/Reductions	830,388,593		817,087,089		664,669,273	
Taxable Assessed Value	\$ <u>11,528,849,787</u>		\$ <u>10,243,855,466</u>		\$ <u>8,837,556,062</u>	

Category	Taxable Appraised Value for Fiscal Year Ended 9-30					
	2013		2012		2011	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 5,115,928,260	41.39%	\$ 4,767,285,960	57.28%	\$ 4,642,728,300	62.24%
Real, Residential, Multi-Family	438,623,740	3.55%	419,574,040	5.04%	403,415,390	5.41%
Real, Vacant Lots/Tracts	186,972,900	1.51%	176,793,950	2.12%	174,263,370	2.34%
Real, Acreage (Land Only)	99,080,780	0.80%	90,204,850	1.08%	92,264,270	1.24%
Real, Farm and Ranch Improvements	30,133,660	0.24%	28,971,370	0.35%	28,437,740	0.38%
Real, Commercial and Industrial	1,444,017,790	11.68%	1,345,917,590	16.17%	1,297,470,220	17.39%
Real, Oil, Gas and Other Mineral Reserves	60,451,810	0.49%	47,912,550	0.58%	51,730,530	0.69%
Real and Tangible Personal, Utilities	112,239,820	0.91%	107,330,570	1.29%	107,921,810	1.45%
Tangible Personal, Commercial and Industrial	788,023,400	6.38%	673,917,980	8.10%	624,187,260	8.37%
Tangible Personal, Other	3,736,860	0.03%	3,451,290	0.04%	3,079,110	0.04%
Real Property, Inventory (1)	42,888,950	0.35%	37,485,910	0.45%	34,098,010	0.46%
Total Appraised Value Before Exemptions	\$ 8,322,097,970	67.34%	\$ 7,698,846,060	92.51%	\$ 7,459,596,010	100.00%
Less: Total Exemptions/Reductions	600,769,922		603,922,660		702,823,690	
Taxable Assessed Value	\$ <u>7,721,328,048</u>		\$ <u>7,094,923,400</u>		\$ <u>6,756,772,320</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Midland Central Appraisal District to the State Controller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

(1) Real inventory properties in the hands of developers or builders; each group of properties in this category is appraised on the basis of its value as a whole as a sale to another developer or builder.

City of Midland, Texas

Table 3A - Valuation and General Obligation Debt History

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation (2)	Taxable Assessed Valuation Per Capita	General Purpose Funded Tax Debt Outstanding at End of Year (3)	Ratio General Purpose Funded Tax Debt to Taxable Assessed Valuation	General Purpose Funded Tax Debt Per Capita
2011	113,885	6,756,772,320	59,330	26,580,000	0.39%	233
2012	119,769	7,094,923,400	59,238	37,275,000	0.53%	311
2013	124,127	7,721,328,048	62,205	34,480,000	0.45%	278
2014	128,037	8,837,556,062	69,023	57,470,000	0.65%	449
2015	132,503	10,243,855,466	77,310	54,670,000	0.53%	413
2016 (4)	128,894	11,528,849,787	89,444	51,140,000	0.44%	397

(1) Source: City of Midland, Texas; the U.S. Census Bureau 2010 through 2014; estimated 2015 and 2016.

(2) Basis of assessment for all years 100% of market value. All taxable property is revalued each year.

(3) General Purpose Funded Tax Debt less Self-Supporting Funded Tax Debt (see "Table 3B - Derivation of General Purpose Funded Tax Debt").

(4) Projected

Table 3B - Derivation of General Purpose Funded Tax Debt

Fiscal Year Ending 9-30	Total Funded Tax Debt Outstanding At End of Year	Less: Self-Supporting Funded Tax Debt				General Purpose Funded Tax Debt
		Airport General Obligation Debt	Water and Sewer General Obligation Debt	Scharbauer Sports Complex General Obligation Debt		
2011	106,280,000	7,310,000	48,695,000	23,695,000	26,580,000	
2012	128,245,000	5,990,000	63,115,000	21,865,000	37,275,000	
2013	120,385,000	4,600,000	61,350,000	19,955,000	34,480,000	
2014	137,770,000	3,140,000	59,215,000	17,945,000	57,470,000	
2015	129,095,000	1,605,000	56,985,000	15,835,000	54,670,000	
2016 (1)	119,420,000	0	54,660,000	13,620,000	51,140,000	

(1) Projected

Table 4 - Tax Rate, Levy and Collection History

Fiscal Year Ended 9-30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2011	0.472850	0.41719	0.05566	31,949,398	95.92%	98.86%
2012	0.470540	0.41845	0.05209	33,384,453	96.31%	98.70%
2013	0.461090	0.40405	0.05704	35,602,271	96.24%	98.55%
2014	0.431927	0.38572	0.04621	38,171,791	96.85%	98.02%
2015	0.393891	0.33748	0.05641	40,349,624	99.62%	100.82%
2016	0.380480	0.33222	0.04827	43,864,967	N/A	N/A

City of Midland, Texas

Table 5 - Ten Largest Taxpayers

Name of Taxpayer	Nature of Property	2015 Taxable Assessed Valuation	% of 2015 Total Taxable Assessed Valuation
Propetro Services (VEH)	Oil and Gas	\$ 235,090,000	2.04%
Diamondback E&P LLC	Oil and Gas	193,854,320	1.68%
Viper Energy Partners LLC	Oil and Gas	80,003,410	0.69%
RSP Permian LLC	Oil and Gas	74,914,130	0.65%
Endeavor Energy Resources LP	Oil and Gas	52,711,490	0.46%
Pioneer Natural Resources USA	Oil and Gas	51,782,300	0.45%
Oncor Electric FKA:TXU Ele (10)	Electric Utility	50,335,560	0.44%
Basic Energy Services	Oil and Gas	49,229,450	0.43%
Claydesta Buildings LP	Real Estate	38,075,770	0.33%
Mall at Midland Park LLC	Retail Sales	37,243,920	0.32%
		<u>\$ 863,240,350</u>	<u>7.49%</u>

Table 6 - Tax Adequacy

Maximum Principal and Interest Requirements, All General Obligation Debt.....	\$ 15,160,964
\$.1369 Tax Rate at 96% Collection Produces.....	\$ 15,160,964
Maximum Principal and Interest Requirements General Purpose General Obligation Debt, 2016.....	\$ 5,593,795
\$.0505 Tax Rate at 96% Collection Produces.....	\$ 5,593,795

Table 7 - Estimated Overlapping Debt

Taxing Jurisdiction	Taxable Assessed Valuation As Of 9-30-15 (1)	Tax Rate (1)	Total Funded Debt As Of 9-30-15	Estimated % Applicable to City (1)	City's Overlapping Funded Debt As Of 9-30-15	Authorized But Unissued Debt As Of 9-30-15
City of Midland	\$ 11,528,849,787	0.380480	\$ 54,670,000 (6)	100.00%	\$ 54,670,000	\$ 0
Midland Independent School District	20,082,929,289	1.140050	256,784,624 (2)	55.23%	141,822,148	0
Midland Community College District	21,355,957,357	0.125930	39,172,933 (5)	55.24%	21,639,128	0
Midland County	22,261,194,176	0.140811	18,140,000 (3)	51.67%	9,372,938	0
Midland County Hospital District	22,709,674,441	0.119840	103,720,000 (4)	51.68%	53,602,496	0
Total Direct and Overlapping G.O. Debt					<u>\$ 281,106,710</u>	
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation					2.44%	
Per Capita Overlapping G.O. Debt					\$ 2,180.91	

Sources:

- (1) Midland Central Appraisal District
- (2) Midland Independent School District
- (3) Midland County
- (4) Midland County Hospital District
- (5) Midland Community College District
- (6) General Purpose Funded Debt; excludes self-supporting funded debt

complete for 10

Table 7 - Estimated Overlapping Debt

Top Margin - 7.175

	Total Value from 2015 Totals property value report top section	Less: Veterans Exemptions third section	Less: Productivity Value Loss + Poll Exempt Sec 2 & 3	Common Basis for calc of est % applicable
City of Midland	12,359,238,380	25,833,193	55,056,530	12,278,348,657
Midland Independent School District	22,806,350,731	24,019,807	550,732,350	22,231,598,574
Midland County Junior College District	22,806,350,681	29,957,220	550,732,350	22,225,661,111
Midland County	24,401,513,731	30,547,347	607,419,060	23,763,547,324
Midland County Hospital District	24,398,615,041	31,684,986	607,419,060	23,759,510,995

City of Midland, Texas

**Table 8A - General Obligation Debt Service Requirements and
Table 8b - Division of Debt Service Requirements**

Fiscal Year Ending 9 - 30	Outstanding Requirements			% of Principal Retired	Less: Airport General Obligation Debt	Less: Sports Complex Development Corporation General Obligation Debt	Less: Water and Sewer System General Obligation Tax Debt	General Purpose Funded Tax Debt
	Principal	Interest	Total					
2016	9,675,000	5,485,963	15,160,963	7.49%	1,637,100	2,900,352	4,851,274	5,772,237
2017	7,160,000	5,131,112	12,291,112	13.04%	-	2,906,603	4,241,499	5,143,010
2018	7,460,000	4,827,912	12,287,912	18.82%	-	2,904,427	4,241,424	5,142,061
2019	7,295,000	4,536,324	11,831,324	24.47%	-	2,907,183	4,242,574	4,681,567
2020	7,625,000	4,218,778	11,843,778	30.38%	-	2,907,112	4,243,824	4,692,842
2021	7,575,000	3,870,058	11,445,058	36.24%	-	2,905,487	4,242,518	4,297,053
2022	5,825,000	3,569,436	9,394,436	40.76%	-	852,744	4,242,274	4,299,418
2023	5,205,000	3,332,220	8,537,220	44.79%	-	-	4,241,434	4,295,786
2024	5,450,000	3,094,450	8,544,450	49.01%	-	-	4,245,281	4,299,169
2025	5,705,000	2,837,610	8,542,610	53.43%	-	-	4,243,481	4,299,129
2026	5,965,000	2,576,705	8,541,705	58.05%	-	-	4,245,656	4,296,049
2027	6,225,000	2,317,940	8,542,940	62.87%	-	-	4,246,594	4,296,346
2028	5,935,000	2,056,852	7,991,852	67.47%	-	-	4,242,431	3,749,421
2029	6,200,000	1,794,106	7,994,106	72.27%	-	-	4,242,106	3,752,000
2030	5,745,000	1,535,038	7,280,038	76.72%	-	-	4,243,991	3,036,047
2031	6,015,000	1,270,319	7,285,319	81.38%	-	-	4,242,381	3,042,938
2032	6,290,000	990,538	7,280,538	86.25%	-	-	4,242,494	3,038,044
2033	4,435,000	746,325	5,181,325	89.69%	-	-	3,111,125	2,070,200
2034	4,645,000	539,225	5,184,225	93.29%	-	-	3,113,625	2,070,600
2035	2,745,000	364,625	3,109,625	95.41%	-	-	3,109,625	-
2036	2,885,000	223,875	3,108,875	97.65%	-	-	3,108,875	-
2037	3,035,000	75,875	3,110,875	100.00%	-	-	3,110,875	-
Total	\$ 129,095,000	\$ 55,395,286	\$ 184,490,286		\$ 1,637,100	\$ 18,283,908	\$ 88,295,361	\$ 76,273,917

(Unaudited - See Accompanying Independent Auditors' Report)

City of Midland, Texas

Table 9 - Interest and Sinking Fund Budget Projection

	Airport General Obligation Debt	Water and Sewer General Obligation Debt	Scharbauer Sports Complex General Obligation Debt	General Purpose General Obligation Debt	Combined General Obligation Debt
Debt Service Requirements, Fiscal Year Ending 9-30-16	\$ 1,637,100	\$ 4,851,274	\$ 2,900,352	\$ 5,772,237	\$ 15,160,963
Source of Funds, Fiscal Year Ending 9-30-16					
Interest and Sinking Funds, 9-30-15	\$ 962,770	\$ 1,819,185	\$ 1,389,368	\$ 925,136	\$ 5,096,459
Budgeted Ad Valorem Tax Receipts, Including Delinquent Tax Collections				5,418,693	5,418,693
Budgeted Transfers:					
From Water and Sewer Fund	0	4,316,534	0	0	4,316,534
From Airport Fund	202,995	0	0	0	202,995
From Airport Passenger Facility Fund	479,112	0	0	0	479,112
From Sports Complex Operations Fund	0	0	18,280,659	0	18,280,659
From Golf Course Fund	0	0	0	241,536	241,536
Estimated Investment Income	1,000	2,500	4,000	5,000	12,500
Total Sources of Funds	\$ 1,645,877	\$ 6,138,219	\$ 19,674,027	\$ 6,590,365	\$ 34,048,488
Estimated Balance, 9-30-16	\$ 8,777	\$ 1,286,945	\$ 16,773,675	\$ 818,128	\$ 18,887,525

Table 10 - Computation of Self-Supporting Debt

	Airport	Water & Sewer	Scharbauer Sports Complex ⁽¹⁾
Net Revenues, Fiscal Year Ended 9-30-15	\$ 6,112,922	\$ 19,778,036	\$ 7,397,016
Less: Prior Lien Revenue Bonds Revenue Requirements Fiscal Year 2015 – 2016	0	0	0
Balance Available for Subordinate Lien Revenue Bond Requirements	\$ 6,112,922	\$ 19,778,036	7,397,016
Less: Subordinate Lien Revenue Bond Requirements Fiscal Year 2015 – 2016	0	0	0
Balance Available for Other Purposes	\$ 6,112,922	\$ 19,778,036	7,397,016
Less: System General Obligation Debt Requirements, Fiscal Year 2015 – 2016	1,637,100	4,851,274	2,900,353
Balance	\$ 4,475,822	\$ 14,926,762	\$ 4,496,663
Percentage of System General Obligation Debt Self-Supporting	100.00%	100.00%	100.00%

(1) The Scharbauer Sports Complex Fund was established to account for all payments from the 4b development corporation to the City and all revenues and expenses of the Scharbauer Sports Complex.

(Unaudited - See Accompanying Independent Auditors' Report)

City of Midland, Texas

Table 11 - Authorized but Unissued General Obligation Bonds

The City has no authorized but unissued general obligation bonds.

Table 12 - Other Obligations

The City has no lease-purchase agreements for the acquisition of any assets.

Housing and Urban Development Section 108 Program Note

On November 27, 2000, the City entered into a note agreement with the Department of Housing and Urban Development ("HUD") for loan guarantee assistance under Section 108 of title 1 of the Housing and Community Development Act 1974, as amended, in the amount of \$1,045,000. The Note was issued to aid in the establishment of an Advanced Technology Center in order to provide secondary and post secondary education opportunities using innovative technology and pay professional services rendered in relation to such project and the financing thereof. Under the terms of the Note, the City will make annual principal payments on August 1, of each year beginning in 2001 through 2015; interest payments were due semi-annually at a variable rate of 20 basis points above London Interbank Offered Rates until a fixed rate was established pursuant to the note agreement. As of August 9, 2001, the interest rate on the \$1,000,000 outstanding balance of this note agreement was fixed as part of a \$313,756,000 U.S. Department of Housing and Urban Development, Section 108 Government Guaranteed Participation Certificates, Series HUD 2001-A. The Note will be paid from the City's Water and Sewer System.

The final payment on this note agreement was made on July 22, 2015.

City of Midland, Texas
HUD Section 108 Loan
Debt Service Schedule

Fiscal Year Ending 9-30	Principal	Interest	Total
2016	0	0	0
Total Issue	\$ 0	\$ 0	\$ 0

City of Midland, Texas

Table 13 - General Fund Revenues and Expenditure History

	For Fiscal Years Ending September 30,				
	2015	2014	2013	2012	2011
Revenues					
Taxes	\$ 92,733,411	\$ 92,001,619	\$ 82,072,286	\$ 76,802,703	\$ 70,176,536
Licenses and permits	3,569,903	3,091,399	3,142,106	1,936,372	1,604,258
Fines and forfeitures	3,349,255	3,783,005	3,891,789	3,808,669	3,648,203
Charges for current services	3,182,358	2,640,062	2,564,362	2,685,136	2,311,691
Rentals	14,144	14,244	17,344	11,344	14,344
Intergovernmental grants	1,071,450	859,928	782,449	1,442,040	2,194,974
Investment income	1,819,941	1,327,357	(896,062)	352,527	640,809
Miscellaneous	1,024,344	1,006,249	1,087,825	488,952	2,704,778
Total revenues	\$ 106,764,806	\$ 104,723,863	\$ 92,662,099	\$ 87,527,743	\$ 83,295,593
Expenditures					
Administration	\$ 1,744,680	\$ 1,681,529	\$ 1,478,038	\$ 1,229,487	\$ 1,027,080
Support services	16,392,321	13,752,715	15,767,979	11,986,500	11,779,518
Fiscal management	2,079,315	2,260,620	2,205,458	2,154,462	1,990,886
Development services	3,555,322	3,350,847	2,618,009	2,484,995	10,639,275
Engineering	17,431,031	13,905,183	15,188,449	7,700,839	-
Community services	12,346,085	10,261,957	10,018,185	10,597,142	9,591,163
Police	25,308,241	25,416,580	24,538,644	22,766,719	21,393,542
Fire	26,254,173	24,516,468	22,905,985	20,918,880	18,782,600
Other	3,977,125	3,475,988	2,585,876	2,004,107	1,952,344
Total expenditures	\$ 109,088,293	\$ 98,621,887	\$ 97,306,623	\$ 81,843,131	\$ 77,156,408
Excess of revenues over (under) expenditures	\$ (2,323,487)	\$ 6,101,976	\$ (4,644,524)	\$ 5,684,612	\$ 6,139,185
Other financing sources (uses):					
Sale of capital assets	\$ 0	\$ 0	\$ 350,000	\$ -	\$ -
Transfers in	4,566,344	5,270,262	5,043,341	4,932,814	4,948,358
Transfers out	(751,830)	(590,937)	(565,834)	(515,103)	(586,248)
Total Other Financing Sources (Uses)	\$ 3,814,514	\$ 4,679,325	\$ 4,827,507	\$ 4,417,711	\$ 4,362,110
Excess of revenues and other sources over (under) expenditures and other uses	\$ 1,491,027	\$ 10,781,301	\$ 182,983	\$ 10,102,323	\$ 10,501,295
Fund balance at beginning of the year	69,641,804	58,860,503	58,677,520	48,575,197	38,073,902
Fund balance at the end of the year	\$ 71,132,831	\$ 69,641,804	\$ 58,860,503	\$ 58,677,520	\$ 48,575,197

City of Midland, Texas

Table 14 - Municipal Sales Tax History

Fiscal Year Ended 9-30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita (1)
2011	30,281,637	94.78%	0.4482	253.05
2012	35,472,614	106.25%	0.5000	286.22
2013	39,046,477	109.67%	0.5057	303.82
2014	44,776,484	125.77%	0.5799	348.40
2015	42,942,587	112.50%	0.4859	324.09

(1) See "Estimated Population" under "Table 3A - Valuation and Funded Debt History"

Table 15 - Current Investments

As of September 30, 2015, the City's investable funds were invested in the following categories:

Type of Investment

Description	% of Market Value	Market Value
U.S. Treasury Notes and Bills	0.00%	\$ 0
U.S. Agency and Instrumentality	24.91%	69,992,460
Cash and Local Government Pools	75.09%	211,044,570
Totals	<u>100.00%</u>	<u>\$ 281,037,030</u>

As of such date, 73.68% of the City's investment portfolio was invested in immediately available funds from pools. The market value of the investment portfolio was 100% of its fair value and the effective investment yield was 0.4874%. Average maturity of the portfolio was 16.97 months.

City of Midland, Texas

Table 16A - Airport Statement of Operations

	For Fiscal Year Ending September 30,				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues					
Terminal (1)					
Airport Parking	\$ 3,923,015	\$ 2,987,635	\$ 2,417,005	\$ 2,245,055	\$ 2,047,487
Airport Building Rental	4,312,874	4,090,892	3,411,902	3,107,199	2,924,153
Airport Aviation Rental	431,819	359,438	235,853	234,823	219,237
Airport Landing Fees	527,521	487,659	464,970	435,169	430,466
Airport Commercial Rentals	150,066	168,248	188,032	181,789	145,659
Airport Fuel and Oil Commissions	88,955	104,480	96,250	98,528	94,520
Miscellaneous	538,283	504,421	94,199	95,197	113,309
	<u>\$ 9,972,533</u>	<u>\$ 8,702,773</u>	<u>\$ 6,908,211</u>	<u>\$ 6,397,760</u>	<u>\$ 5,974,831</u>
Air Park (2)					
Airpark Rentals	\$ 136,204	\$ 135,924	\$ 138,837	\$ 145,220	\$ 144,432
Airpark Fuel and Oil Commissions	21,832	22,614	20,602	18,874	18,250
	<u>\$ 158,036</u>	<u>\$ 158,538</u>	<u>\$ 159,439</u>	<u>\$ 164,094</u>	<u>\$ 162,682</u>
Total Operating Revenues	<u>\$ 10,130,569</u>	<u>\$ 8,861,311</u>	<u>\$ 7,067,650</u>	<u>\$ 6,561,854</u>	<u>\$ 6,137,513</u>
Nonoperating Revenues					
Passenger Facility Charges	\$ 1,999,243	\$ 1,594,738	\$ 2,028,866	\$ 2,126,221	\$ 1,816,827
Other Nonoperating	533,078	2,152,211	225,079	388,153	283,486
	<u>\$ 2,532,321</u>	<u>\$ 3,746,949</u>	<u>\$ 2,253,945</u>	<u>\$ 2,514,374</u>	<u>\$ 2,100,313</u>
Total Nonoperating Revenues	<u>\$ 2,532,321</u>	<u>\$ 3,746,949</u>	<u>\$ 2,253,945</u>	<u>\$ 2,514,374</u>	<u>\$ 2,100,313</u>
GROSS REVENUES	<u>\$ 12,662,890</u>	<u>\$ 12,608,260</u>	<u>\$ 9,321,595</u>	<u>\$ 9,076,228</u>	<u>\$ 8,237,826</u>
OPERATING AND MAINTENANCE EXPENSES (3)					
Salaries and Fringe Benefits	\$ 2,168,268	\$ 2,308,505	\$ 2,147,271	\$ 1,929,992	\$ 1,889,317
Contractual Services	2,104,835	1,812,983	1,976,765	1,816,722	2,091,181
Maintenance of Structures	210,415	66,786	113,984	65,661	51,563
Maintenance of Equipment	90,981	57,603	25,890	52,287	40,181
Foreign Trade Zone	174,989	149,552	155,011	154,132	169,730
General Fund Services	1,600,000	1,500,000	1,368,159	1,409,574	1,410,971
Supplies	200,480	121,702	71,976	64,927	72,734
Other Expenses	-	-	-	-	-
	<u>\$ 6,549,968</u>	<u>\$ 6,017,131</u>	<u>\$ 5,859,056</u>	<u>\$ 5,493,295</u>	<u>\$ 5,725,677</u>
TOTAL OPERATING AND MAINTENANCE EXPENSES	<u>\$ 6,549,968</u>	<u>\$ 6,017,131</u>	<u>\$ 5,859,056</u>	<u>\$ 5,493,295</u>	<u>\$ 5,725,677</u>
NET REVENUES	<u>\$ 6,112,922</u>	<u>\$ 6,591,129</u>	<u>\$ 3,462,539</u>	<u>\$ 3,582,933</u>	<u>\$ 2,512,149</u>

(1) "Terminal" means Midland International Airport

(2) "Airpark" is a 500 acre airport, part of the Airport System, located in north Midland.

(3) "Operating and Maintenance Expenses" do not include depreciation, capital outlay or debt service.

City of Midland, Texas

Table 16B - Water & Sewer Statement of Operations

REVENUES	2015	2014	2013	2012	2011
Water Sales (1)	\$ 42,865,547	\$ 40,020,844	\$ 33,976,375	\$ 29,533,842	\$ 33,602,251
Sewer Charges (1)	13,012,975	11,394,356	10,482,328	10,040,328	9,689,794
Other Operating Revenue	1,001,856	1,146,497	1,085,465	855,694	480,468
Total Operating Revenue	\$ 56,880,378	\$ 52,561,697	\$ 45,544,168	\$ 40,429,864	\$ 43,772,513
Non-Operating Income (2)	2,046,584	2,125,809	107,824	1,142,787	1,501,255
Total Revenue	\$ 58,926,962	\$ 54,687,506	\$ 45,651,992	\$ 41,572,651	\$ 45,273,768
OPERATING EXPENSE (3)					
Salaries and Fringe	\$ 5,912,909	\$ 5,751,727	\$ 5,830,211	\$ 5,392,602	\$ 5,371,588
Benefits					
Contractual Services (4)	24,248,801	26,616,536	24,630,222	18,718,955	20,268,652
Maintenance of Structure	1,124,146	558,523	438,788	412,906	303,721
Maintenance of Equipment	564,050	518,957	456,659	335,035	417,057
Franchise Fees	3,527,560	3,114,314	2,692,772	2,398,143	2,599,173
General Fund Services	1,103,177	1,300,289	1,388,229	1,371,654	1,469,399
Supplies	2,554,046	1,631,981	1,581,354	1,805,380	1,876,189
Other Expenses	114,237	5,182	40,084	15	111
Total Operating Expenses	\$ 39,148,926	\$ 39,497,509	\$ 37,058,319	\$ 30,434,690	\$ 32,305,890
Net Revenues	\$ 19,778,036	\$ 15,189,997	\$ 8,593,673	\$ 11,137,961	\$ 12,967,878
Water Customers	40,367	39,679	38,719	38,087	37,767
Sewer Customers (Est.)	40,367	39,679	38,719	38,087	37,767

(1) Net after discounts allowed (see "Water and Sewer Rates "), penalties and bad debts.

(2) Non-operating income excludes (1) interest income and gain on sale of securities from investment of funds restricted for construction and (2) interest expense.

(3) Depreciation excluded.

(4) Includes all payments to Colorado River Municipal Water District ("CRMWD") for purchase of water and other contractual obligations.

City of Midland, Texas

Table 17 - Outstanding System Revenue Bonds

Prior Lien Bonds:

Waterworks and Sewer System (Prior Lien) Revenue Bonds Outstanding, 9-30-15..... \$ 0

Subordinate Lien Bonds:

Waterworks and Sewer System Junior Lien Revenue Bonds Outstanding, 9-30-15..... 0

Total Waterworks and Sewer System Revenue Bonds Outstanding, 9-30-15..... \$ 0

Table 18 - Historical Water Pumpage and Consumption

Fiscal Year Ended	Water Pumpage Average Day Pumpage (MGD)	Peak Day Pumpage (MGD)	Total Pumpage (Million Gallons)	Water Consumption Average Day Consumption (MGD)	Total Consumption (Million Gallons)
2011	25.35	35.37	9,254	24.00	8,759
2012	15.92	35.37	5,826	15.56	5,694
2013	16.49	24.08	6,019	15.65	5,711
2014	16.74	25.94	6,112	15.41	5,625
2015	18.95	30.21	6,897	17.40	6,351
Average Number of Accounts, 10/14 - 9/15 (est.).....			40,023		
Average Monthly Water Bill, 10/14 - 9/15 (est.).....			\$117.53		
Average Monthly Consumption per Account.....			13.22		

AIRPORT REVENUE DEBT

(Unaudited)

City of Midland, Texas

Table 1 - Passenger Enplanements on Scheduled Airline Flights

<u>Calendar Year</u>	<u>Southwest Airlines (1)</u>	<u>Continental Airlines (2)</u>	<u>American Eagle (3)</u>	<u>Other Airlines</u>	<u>Total</u>
2011	287,982	73,852	71,449	33,070	466,353
2012	295,403	52,584	81,922	60,597	490,506
2013	278,961	72,478	95,104	56,057	502,600
2014	292,173	89,155	105,504	56,464	543,296
2015	272,517	64,912	100,680	65,163	503,272

(1) Southwest commenced service in May 1977.

(2) Continental commenced service in January 1993.

(3) American Eagle commenced service in November 1990.

City of Midland, Texas

Table 2 - Airline / Airport Use Agreement

Certificated Passenger Airline/Airport Use Agreement

Scheduled airlines operating at Midland International Air and Space Port are required to sign standard Airline/Airport use and lease agreements (the "Agreements"). These agreements allow the signatory airline the use of certain premises and facilities and for the exercise of certain rights and privileges at the Midland International Air and Space Port in connection with the operation of an air transportation system. All current airline agreements are in a holdover period with new agreements being worked on at this time.

Landing Fees

On August 1, 2008, the rate for landing fees was temporarily rolled back from \$0.70 to \$0.60 per 1,000 Gross Landing Weight. This reduction, enacted to assist the airlines during the crisis generated by high fuel costs, lapsed on February 1, 2009. At that time the rate returned to the \$0.70 per 1,000 Gross Landing Weight. The City has no plans to increase landing fees above that level during the year ended September 30, 2015.

Rentals

Terminal Building joint use and exclusive rates are currently \$20.50 per square foot per year. The rate used to calculate the amount of rent to be paid by the airline to the City shall be reviewed annually and may be adjusted if the Airport's financial data for the Airport System Cost/Revenue indicates such need. In no event shall the square footage rate be less than the base \$20.50 rate. No change in rates is anticipated for Fiscal Year 2015.

Exclusive Terminal Building Space

Includes ticket counters, operations offices, airfreight handling areas, and administrative offices.

Non-exclusive Terminal Building Space

Joint Use Area - 20% of the total monthly charge divided equally among all scheduled airlines. 40% of the total is prorated among all scheduled airlines based upon the ratio of each such airline's number of revenue landings during the calendar month for which such charges are being determined, to the total of all revenue landings for all scheduled airlines. The remaining 40% is prorated among all scheduled airlines based upon the ratio of each such scheduled airline's number of enplaned passengers to the total of enplaned passengers for the calendar month.

Passenger Loading Bridges and Baggage Claim System

Under the terms of the Airline/Airport Use and Lease agreement between the City of Midland and the airlines serving the Airport, the airlines have responsibility for operation of these systems. In accordance with the Aircraft Passenger Loading Bridge and Baggage System Maintenance contract, charges for maintenance are assessed to the airlines based upon labor performed plus parts, materials and shipping costs.

Extraordinary Costs and Expenses

The agreements provide for timely renegotiation and adjustments to rentals, landing fees and other charges in the event extraordinary costs or expenses are incurred by the City, including technical advances or new governmental requirements.

City of Midland, Texas

Table 3 - Airport Revenue Debt Service Requirements

The final payment to retire the Airport Revenue Bonds, Series 1997 was made on December 1, 2006.

Table 4 - Authorized But Unissued Airport Revenue Bonds; Anticipated Issuance of Airport Revenue Bonds

The City has no authorized but unissued revenue bonds, and pursuant to State law is not required to approve its revenue bonds through election. The City does not anticipate the issuance of additional Airport Revenue Bonds in the foreseeable future.

Table 5 - Other Airport Obligations

The City has no lease, lease-purchase or note obligations secured by Airport revenues. The City's Tax and Airport Subordinate Lien Revenue and Tax Certificates of Obligation, Series 1996 was refunded upon issuance of General Obligation Refunding Bonds, Series 2006A (outstanding principal balance at 9-30-15 is \$1,605,000). This debt is secured by an ad valorem tax.

City of Midland, Texas

Table 6 - Airport Statement of Operations

	For Fiscal Year Ending September 30,				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Operating Revenues</u>					
<u>Terminal (1)</u>					
Airport Parking	\$ 3,923,015	\$ 2,987,635	\$ 2,417,005	\$ 2,245,055	\$ 2,047,487
Airport Building Rental	4,312,874	4,090,892	3,411,902	3,107,199	2,924,153
Airport Aviation Rental	431,819	359,438	235,853	234,823	219,237
Airport Landing Fees	527,521	487,659	464,970	435,169	430,466
Airport Commercial Rentals	150,066	168,248	188,032	181,789	145,659
Airport Fuel and Oil Commissions	88,955	104,480	96,250	98,528	94,520
Miscellaneous	538,283	504,421	94,199	95,197	113,309
	<u>\$ 9,972,533</u>	<u>\$ 8,702,773</u>	<u>\$ 6,908,211</u>	<u>\$ 6,397,760</u>	<u>\$ 5,974,831</u>
<u>Air Park (2)</u>					
Airpark Rentals	\$ 136,204	\$ 135,924	\$ 138,837	\$ 145,220	\$ 144,432
Airpark Fuel and Oil Commissions	21,832	22,614	20,602	18,874	18,250
	<u>\$ 158,036</u>	<u>\$ 158,538</u>	<u>\$ 159,439</u>	<u>\$ 164,094</u>	<u>\$ 162,682</u>
Total Operating Revenues	<u>\$ 10,130,569</u>	<u>\$ 8,861,311</u>	<u>\$ 7,067,650</u>	<u>\$ 6,561,854</u>	<u>\$ 6,137,513</u>
<u>Nonoperating Revenues</u>					
Passenger Facility Charges	\$ 1,999,243	\$ 1,594,738	\$ 2,028,866	\$ 2,126,221	\$ 1,816,827
Other Nonoperating	533,078	2,152,211	225,079	388,153	283,486
	<u>\$ 2,532,321</u>	<u>\$ 3,746,949</u>	<u>\$ 2,253,945</u>	<u>\$ 2,514,374</u>	<u>\$ 2,100,313</u>
Total Nonoperating Revenues	<u>\$ 2,532,321</u>	<u>\$ 3,746,949</u>	<u>\$ 2,253,945</u>	<u>\$ 2,514,374</u>	<u>\$ 2,100,313</u>
GROSS REVENUES	<u>\$ 12,662,890</u>	<u>\$ 12,608,260</u>	<u>\$ 9,321,595</u>	<u>\$ 9,076,228</u>	<u>\$ 8,237,826</u>
<u>OPERATING AND MAINTENANCE EXPENSES (3)</u>					
Salaries and Fringe Benefits	\$ 2,168,268	\$ 2,308,505	\$ 2,147,271	\$ 1,929,992	\$ 1,889,317
Contractual Services	2,104,835	1,812,983	1,976,765	1,816,722	1,820,549
Maintenance of Structures	210,415	66,786	113,984	65,661	51,563
Maintenance of Equipment	90,981	57,603	25,890	52,287	40,181
Foreign Trade Zone	174,989	149,552	155,011	154,132	169,730
General Fund Services	1,600,000	1,500,000	1,368,159	1,409,574	1,410,971
Supplies	200,480	121,702	71,976	64,927	72,734
	<u>\$ 6,549,968</u>	<u>\$ 6,017,131</u>	<u>\$ 5,859,056</u>	<u>\$ 5,493,295</u>	<u>\$ 5,455,045</u>
TOTAL OPERATING AND MAINTENANCE EXPENSES	<u>\$ 6,549,968</u>	<u>\$ 6,017,131</u>	<u>\$ 5,859,056</u>	<u>\$ 5,493,295</u>	<u>\$ 5,455,045</u>
NET REVENUES	<u>\$ 6,112,922</u>	<u>\$ 6,591,129</u>	<u>\$ 3,462,539</u>	<u>\$ 3,582,933</u>	<u>\$ 2,782,781</u>

(1) "Terminal" means Midland International Airport

(2) "Airpark" is a 500 acre airport, part of the Airport System, located in north Midland.

(3) "Operating and Maintenance Expenses" do not include depreciation, capital outlay or debt service.

City of Midland, Texas

Table 7 - Coverage

Maximum Principal and Interest Requirements, 2015.....	\$	0
Coverage of Maximum Requirements by 9-30-15 Net Revenues.....		n/a
Coverage of Maximum Requirements by 9-30-15 Net Revenues.....		n/a
 Airport Revenue Bonds to be Outstanding, 9-30-15.....	 \$	 0

Table 8 - Current Investments

As of September 30, 2015, the City's investable funds were invested in the following categories:

Type of Investment

Description	% of Market Value	Market Value
U.S. Treasury Notes and Bills	0.00%	\$ 0
U.S. Agency and Instrumentality	24.91%	69,992,460
Cash and Local Government Pools	75.09%	211,044,570
Totals	100.00%	\$ 281,037,030

As of such date, 73.68% of the City's investment portfolio was invested in immediately available funds from pools. The market value of the investment portfolio was 100% of its fair value and the effective investment yield was 0.4874%. Average maturity of the portfolio was 16.97 months.

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Albuquerque, NM 87110-8179

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Midland (the City) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2016. We have separately audited the financial statements of the Midland Development Corporation (MDC), the Midland Football/Soccer and Baseball Complex Development Corporation (SCDC), and the Midland Spaceport Development Corporation (Spaceport) for the year ended September 30, 2015, which represent all of the assets, net position, and revenue of the aggregate discretely presented component units and have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* thereon dated March 30, 2016.

Internal Control over Financial Reporting

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

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



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

Compliance and Other Matters

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

Purpose of This Report

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

KPMG LLP

Albuquerque, New Mexico
March 30, 2016