



SCHEDULE OF
PASSENGER FACILITY
CHARGE
REVENUE AND
DISBURSEMENTS

FOR YEAR ENDED

SEPTEMBER 30, 2016

MIDLAND, TEXAS

CITY OF MIDLAND, TEXAS
MIDLAND INTERNATIONAL AIR AND SPACE PORT

SCHEDULE OF PASSENGER FACILITY
CHARGE REVENUE AND DISBURSEMENTS

FISCAL YEAR ENDED
SEPTEMBER 30, 2016

(With Independent Auditors' Report Thereon)

CITY OF MIDLAND, TEXAS
MIDLAND INTERNATIONAL AIR AND SPACE PORT
YEAR ENDED SEPTEMBER 30, 2016

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
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 <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for the Passenger Facility Charge Program; Report on Internal Control Over Compliance; and Report on Schedule of Passenger Facility Charge Revenue and Disbursements in Accordance with the <i>Passenger Facility Charge Audit Guide for Public Agencies</i>	4
Schedule of Passenger Facility Charge Revenue and Disbursements	6
Notes to Schedule of Passenger Facility Charge Revenue and Disbursements	7
Summary of Findings and Questioned Costs	8



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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, Texas (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 opinions on the 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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*.



The City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

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
June 28, 2017

THE CITY OF MIDLAND, TEXAS
Schedule of Findings and Responses
Year ended September 30, 2016

Finding Number: 2016-001

Entity: The City of Midland and Midland Development Corporation

Finding Title: Financial Management Tasks

Type of Finding: Significant Deficiency in Internal Controls

Criteria

Timely and accurate financial reporting is an integral factor of an effective financial management system. This includes a complete, accurate, and timely review and reconciliation of account balances.

Condition

MDC has experienced difficulties in certain financial management tasks such as timely review, reconciliation, and recording of property, plant, and equipment and related accumulated depreciation. While management has controls in place to reconcile these account balances, the controls did not operate on a consistent basis, which resulted in untimely closing of the financial records for the year ended September 30, 2016.

Cause and Effect

Lack of timely reconciliation of the property, plant, and equipment detail ledger to the related general ledger account resulted in significant delays in the closing and financial reporting process.

Auditors' Recommendation

Management should strengthen the organization's review and reconciliation procedures throughout the period to help to ensure that account balance details are accurately reflected in the general ledger system on a timely basis. A monthly reconciliation of this account should be performed monthly and an independent review by someone other than the preparer should be documented and maintained in the files.

View of Responsible Officials

In fiscal year 2016, the City went live with a software conversion. While the overall software conversion was a success, the City did experience issues related to property, plant, and equipment which required review and correction. As a result, closing of financial records was delayed.

As noted, the City has controls in place to reconcile property, plant, and equipment balances and has reemphasized with Accounting Staff the importance of performing this responsibility accurately and timely. Additionally, Accounting Division Management re-evaluated the responsibilities and duties of Accounting Staff and intends to dedicate a position strictly with the responsibility of managing property, plant, and equipment and related duties.



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Independent Auditors' Report on Compliance for the Passenger Facility Charge Program; Report on Internal Control over Compliance; and Report on Schedule of Passenger Facility Charge Revenue and Disbursements in Accordance with the *Passenger Facility Charge Audit Guide for Public Agencies*

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

Report on Compliance for the Passenger Facility Charge Program

We have audited the City of Midland, Texas Midland International Air and Space Port's (the Airport) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration that could have a direct and material effect on the Airport's passenger facility charge program for the year ended September 30, 2016. The Airport's passenger facility charge program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for of the Airport's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion on the Passenger Facility Charge Program

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing



procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Passenger Facility Charge Revenue and Disbursements

We have audited 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, Texas (the City), which includes the Airport Enterprise Fund as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 28, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of passenger facility charge revenue and disbursements is presented for purposes of additional analysis as required by the Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of passenger facility charge revenue and disbursements is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Albuquerque, New Mexico
June 28, 2017

Schedule of Passenger Facility Charge Revenue and Disbursements

**City of Midland, Texas
Midland International Air and Space Port
FY - 16
10/1/15-9/30/16**

	FY-15 Program Total	Quarter 1 Oct. - Dec.	Quarter 2 Jan. - Mar.	Quarter 3 Apr. - Jun.	Quarter 4 Jul. - Sep.	FY-16 Total	FY-16 Program Total
Revenue							
Collections	\$ 36,545,397	\$ 542,701	474,021	\$ 484,416	\$ 413,031	\$ 1,914,169	\$ 38,459,566
Interest	\$ 2,600,455	\$ 735	1,596	\$ 3,041	\$ 4,652	\$ 10,024	\$ 2,610,479
Total Revenue	\$ 39,145,852	\$ 543,436	\$ 475,617	\$ 487,457	\$ 417,683	\$ 1,924,193	\$ 41,070,045
Disbursements							
App 94-02							
Proj. 2-1 - Rehab. RW 4-22	\$ 119,012	\$ -	-	\$ -	\$ -	\$ -	\$ 119,012
Proj. 2-2 - Rehab. RW 16L-34R	\$ 79,340	\$ -	-	\$ -	\$ -	\$ -	\$ 79,340
Proj. 2-3 - Rehab. Airf. Taxiways	\$ 223,673	\$ -	-	\$ -	\$ -	\$ -	\$ 223,673
Proj. 2-4 - Const. New Terminal	\$ 29,825,280	\$ 119,646	119,646	\$ 119,646	\$ 119,646	\$ 478,584	\$ 30,303,864
Total App - 02	\$ 30,247,305	\$ 119,646	\$ 119,646	\$ 119,646	\$ 119,646	\$ 478,584	\$ 30,725,889
App 01-04							
Proj. 4-1 - Recon. N. Apron & Drn.	\$ 364,099	\$ -	-	\$ -	\$ -	\$ -	\$ 364,099
Proj. 4-2 - Rehab. RW & Txwy.	\$ 60,187	\$ -	-	\$ -	\$ -	\$ -	\$ 60,187
Proj. 4-3 - Reloc. & Recon Txwy. Z	\$ 213,215	\$ -	-	\$ -	\$ -	\$ -	\$ 213,215
Proj. 4-4 - Replace ARFF Facility	\$ 190,000	\$ -	-	\$ -	\$ -	\$ -	\$ 190,000
Proj. 4-5 - Recon. Txwy C,H,P Intr.	\$ 109,988	\$ -	-	\$ -	\$ -	\$ -	\$ 109,988
Proj. 4-6 - Recon. S. Apron	\$ 378,432	\$ -	-	\$ -	\$ -	\$ -	\$ 378,432
Proj. 4-7 - Acquire 2 ARFF Veh.	\$ 80,000	\$ -	-	\$ -	\$ -	\$ -	\$ 80,000
Total App - 04	\$ 1,395,921	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,395,921
App 07-05							
Proj. 5-1 - PFC Admin. Fee	\$ 50,000	\$ -	-	\$ -	\$ -	\$ -	\$ 50,000
Proj. 5-2 - 10/28 Shoulder	\$ 108,702	\$ -	-	\$ -	\$ -	\$ -	\$ 108,702
Proj. 5-3 - Repl. FIDS/BIDS	\$ 27,815	\$ -	-	\$ -	\$ -	\$ -	\$ 27,815
Proj. 5-4 - Swpr. Snow Rem. Veh.	\$ 36,596	\$ -	-	\$ -	\$ -	\$ -	\$ 36,596
Proj. 5-5 - Airp. Master Drng. Plan	\$ 3,750	\$ -	-	\$ -	\$ -	\$ -	\$ 3,750
Proj. 5-6 - Rehab. RW 16R/34L	\$ 227,731	\$ -	-	\$ -	\$ -	\$ -	\$ 227,731
Proj. 5-7 - Rehab. RW 10/28	\$ 184,490	\$ -	-	\$ -	\$ -	\$ -	\$ 184,490
Proj. 5-8 - Swpr. Snow Rem. Eq.	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -
Proj. 5-9 - Airf. Light/Sign	\$ 82,320	\$ -	-	\$ -	\$ -	\$ -	\$ 82,320
Proj. 5-10 - Rehab. Txwys.	\$ 210,745	\$ -	-	\$ -	\$ -	\$ -	\$ 210,745
Total App - 05	\$ 932,149	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 932,149
App 12-06							
Proj. 6-1 - Terminal Rehab.	\$ 186,637	\$ -	-	\$ -	\$ -	\$ -	\$ 186,637
Proj. 6-2 - Exec. Apron Recon.	\$ 310,103	\$ -	-	\$ -	\$ -	\$ -	\$ 310,103
Proj. 6-3 - NW Taxilane, Emer Rdwy.	\$ 73,586	\$ -	-	\$ -	\$ -	\$ -	\$ 73,586
Proj. 6-4 - Wildlife Hazard Asses.	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -
Proj. 6-5 - RW 4/22 16R/34L Reh. Design	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -
Proj. 6-6 - Emer. Perimeter Rdwy, Gate Reh.	\$ 19,500	\$ -	-	\$ -	\$ -	\$ -	\$ 19,500
Proj. 6-7 - Airport Drng. Improvements	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -
Proj. 6-8 - Ent. Road Guidance Sign Reh.	\$ 1,330,700	\$ -	-	\$ -	\$ -	\$ -	\$ 1,330,700
Proj. 6-9 - Airp. Radio Comm. Sys. Upgrade	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -
Proj. 6-10 - Airfield Lighting Cable Repl.	\$ 1,366,361	\$ -	-	\$ -	\$ -	\$ -	\$ 1,366,361
Proj. 6-11 - Txwy V Apron Expansion	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -
Total App - 06	\$ 3,286,887	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,286,887
App 14-07							
Proj 7-1 - Airfield Security Access Control Sy	\$ 23,845	\$ -	-	\$ -	\$ (23,845)	\$ (23,845)	\$ -
Proj 7-2 - Aircraft Ramp Lighting System	\$ -	\$ -	448,064	\$ -	\$ -	\$ 448,064	\$ 448,064
Proj 7-3 - Construct RW 16R Run-Up	\$ 879,200	\$ -	-	\$ -	\$ -	\$ -	\$ 879,200
Proj 7-4 - Northwest Taxilane Extension	\$ 903,045	\$ -	448,064	\$ -	\$ (23,845)	\$ 424,219	\$ 1,327,264
Total Disbursements	\$ 36,765,307	\$ 119,646	\$ 567,710	\$ 119,646	\$ 95,801	\$ 902,803	\$ 37,668,110
Net PFC Revenue (rev. - disb.)		\$ 423,790	\$ (92,093)	\$ 367,811	\$ 321,882	\$ 1,021,390	
PFC Account Balance	\$ 2,380,545	\$ 2,804,335	\$ 2,712,242	\$ 3,080,053	\$ 3,401,935	\$ 3,401,935	\$ 3,401,935

See accompanying independent auditors' report and notes to the schedule of passenger facility charge revenue and disbursements

CITY OF MIDLAND, TEXAS
MIDLAND INTERNATIONAL AIR AND SPACE PORT

Notes to the Schedule of Passenger Facility
Charge Revenue and Disbursements
For the Year Ended September 30, 2016

1. Description of the Program

Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990, enacted on November 5, 1990, authorized by the Secretary of Transportation, further delegated to the Federal Aviation Administration (FAA) Administrator, to approve the local imposition of an airport passenger facility charge (PFC) of \$1, \$2, or \$3 or \$4.50 per enplaned passenger for use on certain airport projects. On May 29, 1991, the FAA issued Part 158 of the Federal Aviation Regulations outlining policies and procedures for the PFC Program. Under Part 158, public agencies controlling commercial service airports can apply to the FAA for authority to impose a PFC for use on eligible projects. The Midland International Air and Space Port (the Airport) was initially authorized by the FAA to impose and use a \$3 passenger charge. In June of 2004, Midland International Airport was granted FAA approval to collect at the \$4.50 per enplaned passenger rate. Midland International Airport began collecting at the \$4.50 rate effective November 1, 2004. However, January 1, 2014 the passenger charge decreased from \$4.50 to \$3.00 temporarily for the period January 1, 2014 to October 30, 2014 and returned to \$4.50 November 1, 2014.

Passenger facility charges collected are deposited and separately held in a restricted account along with interest earned on such funds. Disbursements shown in the schedule of passenger facility charge revenue and disbursements represent those amounts transferred from the restricted account to reimburse the Airport for the PFC qualified portion of amounts expended on eligible projects.

2. Basis of Accounting – Schedule of Passenger Facility Charge Revenue and Disbursements

The accompanying Schedule of Passenger Facility Charge Revenue and Disbursements presents the revenues received from the Passenger Facility Charges and disbursements paid on approved projects.

The Schedule is prepared on a cash basis and, consequently, does not agree to the basic financial statements, but is reconciled to the financial statements as follows:

PFC cash basis collections	\$ 1,914,169
Fiscal year 2015 accrual	(169,154)
Fiscal year 2016 accrual	<u>212,020</u>
PFC revenue per financial statements	\$ <u>1,957,035</u>

**CITY OF MIDLAND, TEXAS
MIDLAND INTERNATIONAL AIR AND SPACE PORT**

Schedule of Findings and Questioned Costs – Passenger Facility Charge Program
Year ended September 30, 2016

(1) Summary of Auditor's Results

City Financial Statements

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **Yes**
- (c) Noncompliance material to the financial statements: **No**

Passenger Facility Charge Program

- (d) Internal control deficiencies over passenger facility charge program disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for the passenger facility charge program: **Unmodified**
- (f) Audit findings that are required to be reported for the Passenger Facility Charge Program: **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding Number: 2016-001

Entity: The City of Midland and Midland Development Corporation

Finding Title: Financial Management Tasks

Type of Finding: Significant Deficiency in Internal Controls

Criteria

Timely and accurate financial reporting is an integral factor of an effective financial management system. This includes a complete, accurate, and timely review and reconciliation of account balances.

Condition

The City has experienced difficulties in certain financial management tasks such as timely review, reconciliation, and recording of property, plant, and equipment and related accumulated depreciation. While management has controls in place to reconcile these account balances, the controls did not operate on a consistent basis, which resulted in untimely closing of the financial records for the year ended September 30, 2016.

**CITY OF MIDLAND, TEXAS
MIDLAND INTERNATIONAL AIR AND SPACE PORT**

Schedule of Findings and Questioned Costs – Passenger Facility Charge Program

Year ended September 30, 2016

Cause and Effect

Lack of timely reconciliation of the property, plant, and equipment detail ledger to the related general ledger account resulted in significant delays in the closing and financial reporting process.

Auditors' Recommendation

Management should strengthen the organization's review and reconciliation procedures throughout the period to help to ensure that account balance details are accurately reflected in the general ledger system on a timely basis. A monthly reconciliation of this account should be performed monthly and an independent review by someone other than the preparer should be documented and maintained in the files.

View of Responsible Officials

In fiscal year 2016, the City went live with a software conversion. While the overall software conversion was a success, the City did experience issues related to property, plant, and equipment which required review and correction. As a result, closing of financial records was delayed.

As noted, the City has controls in place to reconcile property, plant, and equipment balances and has reemphasized with Accounting Staff the importance of performing this responsibility accurately and timely. Additionally, Accounting Division Management re-evaluated the responsibilities and duties of Accounting Staff and intends to dedicate a position strictly with the responsibility of managing property, plant, and equipment and related duties.

(3) Findings and Questioned Costs Relating to Passenger Facility Charge Program

None

**END OF PFC REPORT
PAMPHLET**

**PAGES TO FOLLOW ARE
ASSOCIATED
DOCUMENTS**

CITY OF MIDLAND, TEXAS
Schedule of Prior Year Findings and Questioned Costs
Year ended September 30, 2016

The status of prior year audit recommendations is summarized below:

None for 2015