



COMPREHENSIVE
ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2012

MIDLAND, TEXAS

THE CITY OF MIDLAND, TEXAS

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

Prepared By:

Finance Department

Robert McNaughton, Director of Finance

Thomas R. Howell, Comptroller

Charlene A. Fox, Accounting Manager

City of Midland
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended September 30, 2012

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March 20, 2013

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, 2012 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 complement this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City was incorporated on January 11, 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) and the Midland Development Corporation (MDC) 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 2007-2011 American Community Survey 5-year estimate, bachelor's degrees or higher are held by 18.6% of the population 25 years and older, and graduate or professional degrees are held by 6.7%. Attributes, such as the educational levels of the populace, in conjunction with good weather, the high quality of life, low cost of living 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.

With over 7.5 million square feet of office space, Midland ranks near the top in the state and serves as a regional administrative center for petroleum production.

In general, the economic outlook for the City is stable. According to the Texas Workforce Commission, Midland reported an unemployment rate of 3.3% for September 2012, lowest among Texas Metropolitan Statistical Areas. During the past year, Midland again received a number one ranking related to economic performance. The Milken Institute, a non-partisan policy think tank, gave Midland top ranking for the fourth straight year among small metropolitan areas based on the city's five-year job (2011) and salary growth (2010) rates and one-year salary growth rate (2010). 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 Tax Increment Reinvestment Zone (the TIRZ) for downtown Midland was created to fuel growth in the downtown portion of the city by reinvesting the tax revenues from the increased values in the TIRZ back into downtown. It is anticipated that improvements will significantly enhance the zone and benefit the whole city. Nearly 28 million in improvements is forecast to be spent over the projected 30 year life of the TIRZ. During 2012, the downtown area experienced substantial growth in assessed value of real property, as did the city as a whole.

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 41 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 city's population, estimated to be 117,967, has been growing steadily. Strong energy prices continue and are increasing the demand for labor and growth in the population base. A steady growth in the number of utility connections and annexations has created more demand on the water system and development of the T-Bar well field will help meet the demands of a growing city. This growth will continue to present major 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. Normal growth is expected in the property tax base for Fiscal Year 2013, and the growth rate for sales tax receipts continues to be strong due to higher, stable energy prices.

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 2012 Strategic Planning Session, ten goals were refined and agreed upon as the top priorities for 2012-2013. The top five planning goals are listed below:

STRATEGIC INITIATIVES

- 4A: Develop a plan to facilitate Economic Development, dealing with Housing, Education, Infrastructure, Water and Technology. Review all opportunities; do not focus only on incentives.
- 4B: Develop education plan concerning the extension of collection of the ¼ cent sales tax after 2016. 4B sales tax dollars help support maintenance and capital costs of the Scharbauer Sports Complex. Loss of that revenue stream will require General Fund support for the complex.
- Water: Educate all residents that water will be limited until the T Bar Ranch comes on line. Create Education Plan for Water Consumption to show how the cost of water may increase.
- Downtown Development: Review smart plan developed in 2007 and take advantage of opportunities that have no impact on the General Fund.
- Sales Tax Revenue: Develop a plan to use excess sales tax for non-recurring funds or one time capital improvements. Maintain reserves at 30%.

MAJOR PROJECTS

- Building an additional Fire Station: Midland Fire Department is experiencing the growth of Midland with record numbers of calls for service. The City has acquired the land for the new fire station 10 and has designated C.O. money for the fire fighting facility.
- Technology and Information Systems: With constant changes in technology and information systems there is a need to upgrade systems across many service lines throughout the city. C.I.S.D. communications and technology upgrade needs have been identified and funding has been established.

- New Municipal Court Building – Land is being acquired for the construction of a new Municipal Court Building to serve the City for the next thirty years
- Raw water & water purification plant upgrades have established funding to proceed with the necessary upgrades needed to meet the demands and regulations established.
- MBR Water reclamation project has been designed and established funding designated to begin the project.
- Elevated water tower recoating and repair needs were established in the 2012 bond issue and the uses and needs identified to maintain our current water storage.

The five planning goals discussed during the 2012 Strategic Planning Session are all key items that will enhance the energy and quality of life in the City Of Midland.

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 division 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 within each operating division. All anticipated expenditures are budgeted for control purposes. Encumbrances are used for managerial control through the year. Budget appropriations and encumbrances other than project appropriations lapse at the end of the fiscal 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. The Water Purification Plant Upgrades continue. The current project is to upgrade the basins and raw water facilities with an estimated cost of \$7.1 million and scheduled completion date of August 2013. Construction of an interceptor wastewater treatment plant will treat wastewater to drinking water standards for irrigation purposes for our largest single site irrigation customer. The project estimated completion date is July 2013 and has an estimated cost of \$6.5 million. The Water Pollution Control Plant project to replace the influent screens at the headworks and rehabilitate the final digester has an estimated cost of \$5.4 million and scheduled completion date of September 2013. Also, the Airport and Paul Davis Well field project will upgrade both wells fields with an estimated cost of \$4.8 million with a scheduled completion date of May 2013. In July 2012, the city accepted A.I.P Grant No. 3-48-0150-53-12 in the amount of \$2,936,924 to be used for the payment of cost associated with the Reconstruct Executive Apron Area B Project.

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 2012 was established at 47.054 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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Fiscal Year	12/13	11/12	10/11	09/10	08/09
General Fund	\$.404049	\$.41845	\$.41719	\$.3975	\$.4352
Debt Service	<u>.057039</u>	<u>.05209</u>	<u>.05566</u>	<u>.0593</u>	<u>.0507</u>
Total	<u>\$.461088</u>	<u>\$.47054</u>	<u>\$.47285</u>	<u>\$.4568</u>	<u>\$.4859</u>

The City 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 \$35,472,615, which was an increase of 17.1% from the prior fiscal year. Sales tax receipts are expected to remain strong with anticipated receipts exceeding fiscal year 2012 by more than 10% due to a growing local economy and strong, stable oil and gas prices.

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 2012, exceeding budget by \$2.2 million or 92%.

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. During 2012, both Moody's Investors Service and Standard & Poor's reaffirmed the underlying rating on the City's general obligation debt at Aa1 and AA+, respectively. Standard & Poor's reaffirmed ratings on both the Water and Sewer Senior Lien Revenue Bonds and Water and Sewer Variable Rate Junior Lien Revenue Bonds at AA-. However, Moody's Investors Service reduced the ratings on both the Water and Sewer Senior Lien Revenue Bonds and Water and Sewer Variable Rate Junior Lien Revenue Bonds from Aa2 to Aa3.

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.

The following summary represents the ratings currently assigned to the City of Midland debt obligations by the major rating agencies:

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
General Obligation Bonds	Aa1	AA+
Water and Sewer Revenue Bonds	Aa3	AA
Water and Sewer Variable Rate Junior Lien Revenue Bonds	Aa3	AA-

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

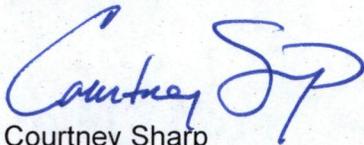
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Midland, Texas, for its comprehensive annual financial report for the fiscal year ended September 30, 2011. This was the twenty-sixth 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.

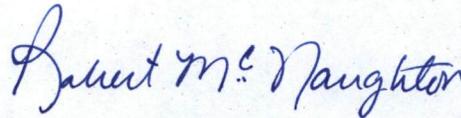
The preparation of this report, and the maintenance of the records upon which it is based, required the services and cooperation of the staff of the Accounting Division, together with assistance from other departments and divisions of the City, and the assistance of the City's independent auditors. All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



Robert McNaughton
Director of Finance

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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

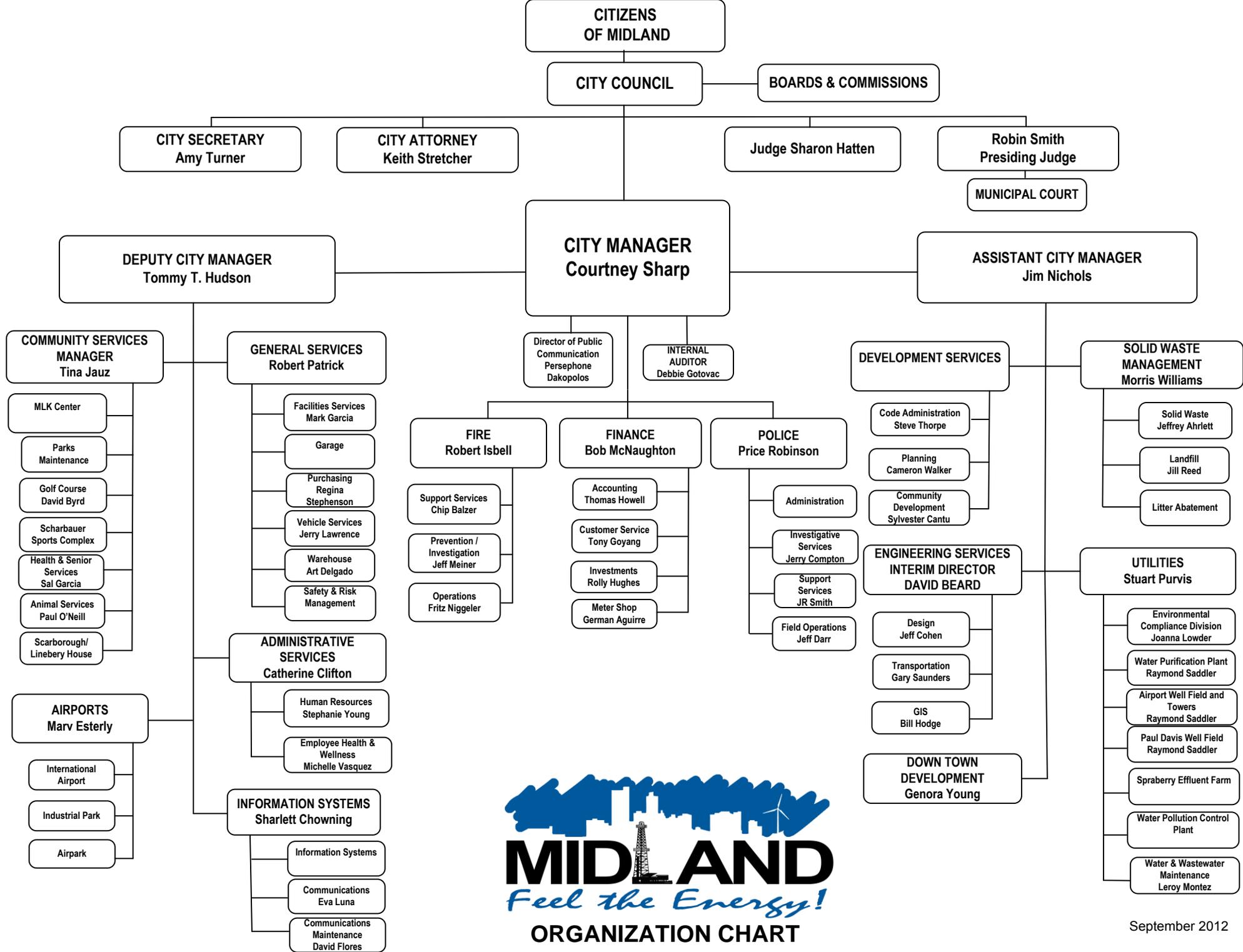


Christopher P. Moynell

President

Jeffrey R. Emswiler

Executive Director



CITY OF MIDLAND
PRINCIPAL OFFICIALS

CITY COUNCIL

The Honorable W. Wesley Perry Mayor
A. Scott Dufford At Large Council Member
Jerry F. Morales At Large Mayor Pro Tem
W. Jeffrey Sparks District 1 Council Member
Vicky Hailey District 2 Council Member
John H. James District 3 Council Member
Michael B. Trost District 4 Council Member

OTHER PRINCIPAL OFFICERS

Courtney B. Sharp City Manager
Tommy T. Hudson Deputy City Manager
James R. Nichols Assistant City Manager
Keith Stretcher City Attorney
Amy M. Turner City Secretary
Price Robinson Chief of Police
Robert Isbell Fire Chief
Robert McNaughton Director of Finance
Tina Jauz Director of Community Services
Marv Esterly Director of Airports
Stuart Purvis Director of Utilities
Morris Williams Director of Solid Waste Management
Robert Patrick Director of General Services



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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Midland, Texas (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, Budgetary Comparison Schedule and Schedules of Funding Progress and Contributions on pages 3 – 18 and 89 – 94 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are 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 combining and individual nonmajor fund financial statements have 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 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 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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.

KPMG LLP

March 20, 2013

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012
(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, 2012. 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 i-vii 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 \$428.2 million (net assets). Unrestricted net assets of \$137.4 million, an increase of \$9.7 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 assets of \$142.4 million, an increase of \$13.4 million in comparison with the prior year. Approximately 37.4% of this total amount, \$53.2 million, is available for spending at the government's discretion (unrestricted net assets).
- As of September 30, 2012, unassigned fund balance for the General Fund was \$49 million, or 59.9% of total General Fund expenditures. At the close of the prior fiscal year, unassigned fund balance for the General Fund was \$39.7 million or 51.5% of that year's expenditures.
- The government's business-type activities total net assets increased from \$272.2 million in Fiscal Year 2011 to \$285.8 million in the current year, a change of 5.0%. Factors in this change were \$4.3 million net revenues in water and sewer activities, \$5.5 million net revenues in sports complex activities and \$6.2 million in airport grants and contributions.
- The City of Midland's total debt increased by \$21.8 million during the current fiscal year. The source of this increase was the issuance of \$29.4 million certificates of obligation, the retirement of \$9.3 million in debt principal and increases in deferred amounts of \$1.7 million.

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. This report also contains other required supplementary information in addition to the basic financial statements.

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Government-wide Financial Statements

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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 of Midland include general government, development services, engineering, community services, police and fire. The business-type activities of the City of Midland 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 a legally separate sports complex development corporation and a legally separate economic development corporation for which the City of Midland is financially accountable. 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 grouping of related 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 of Midland can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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.

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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 of Midland maintains two different 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 of Midland 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 assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Midland, assets exceeded liabilities by \$428.2 million at the close of the most recent fiscal year and by \$401.1 million at the close of the previous fiscal year.

By far the largest portion of the City of Midland's net assets, 62.9%, 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 of Midland'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.

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Government-wide Financial Analysis (continued)

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$118,045	\$88,448	\$143,960	\$124,500	\$262,005	\$212,948
Capital assets	95,588	95,014	278,361	269,819	373,949	364,833
Total assets	213,633	183,462	422,321	394,319	635,954	577,781
Long-term liabilities outstanding	62,092	47,147	118,554	112,647	180,646	159,794
Other liabilities	9,132	7,341	17,962	9,518	27,094	16,859
Total liabilities	71,224	54,488	136,516	122,165	207,740	176,653
Net assets:						
Invested in capital assets, net of related debt	79,951	77,140	189,427	178,170	269,378	255,310
Restricted	9,227	6,518	12,228	11,615	21,455	18,133
Unrestricted	53,231	45,316	84,150	82,369	137,381	127,685
Total net assets	<u>\$142,409</u>	<u>\$128,974</u>	<u>\$285,805</u>	<u>\$272,154</u>	<u>\$428,214</u>	<u>\$401,128</u>

The restricted portion of the City of Midland's net assets (\$21.5 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$137.4 million, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Midland is able to report positive balances in all three categories of net assets, 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.

The government's net assets increased \$27.1 million during the current fiscal year. Net assets of governmental activities increased \$13.4 million and the net assets of business-type activities increased \$13.7 million. The increase in governmental activities net assets is the product of increased revenue from property taxes, sales taxes, hotel-motel taxes, and charges for services offsetting an increase in levels of expenses. The increase in the net assets of business type activities is attributable to contributions, grants received, assets contributed by developers, and an increase in payments received due to the growth in sales tax.

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Government-wide Financial Analysis (continued)

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$9,807	\$9,067	\$73,820	\$73,848	\$83,627	\$82,915
Operating grants and contributions	1,474	1,690	383	353	1,857	2,043
Capital grants and contributions	3,725	4,604	6,325	5,384	10,050	9,988
General revenues:						
Property taxes	34,239	32,698	-	-	34,239	32,698
Sales taxes	35,473	30,282	-	-	35,473	30,282
Other taxes	16,310	14,805	-	-	16,310	14,805
Other	454	1,859	587	1,217	1,041	3,076
Total revenues	<u>101,482</u>	<u>95,005</u>	<u>81,115</u>	<u>80,802</u>	<u>182,597</u>	<u>175,807</u>
Expenses:						
General government:						
Administration	1,420	1,132	-	-	1,420	1,132
Support services	12,749	11,941	-	-	12,749	11,941
Fiscal management	2,225	2,140	-	-	2,225	2,140
Other	4,121	5,727	-	-	4,121	5,727
Development services	3,534	13,837	-	-	3,534	13,837
Engineering	10,643	-	-	-	10,643	0
Community services	9,934	10,137	-	-	9,934	10,137
Police	24,025	23,313	-	-	24,025	23,313
Fire	22,289	20,864	-	-	22,289	20,864
Interest on long-term debt	1,222	1,029	-	-	1,222	1,029
Airport	-	-	8,835	9,295	8,835	9,295
Water and sewer	-	-	37,402	37,131	37,402	37,131
Sanitation	-	-	10,813	10,490	10,813	10,490
Sports complex	-	-	4,243	4,383	4,243	4,383
Golf course	-	-	2,056	1,910	2,056	1,910
Total expenses	<u>92,162</u>	<u>90,120</u>	<u>63,349</u>	<u>63,209</u>	<u>155,511</u>	<u>153,329</u>
Increase/(decrease) in net assets						
before transfers	9,320	4,885	17,766	17,593	27,086	22,478
Transfers	4,115	4,388	(4,115)	(4,388)	-	-
Increase in net assets	<u>13,435</u>	<u>9,273</u>	<u>13,651</u>	<u>13,205</u>	<u>27,086</u>	<u>22,478</u>
Net assets - October 1	<u>128,974</u>	<u>119,701</u>	<u>272,154</u>	<u>258,949</u>	<u>401,128</u>	<u>378,650</u>
Net assets - September 30	<u>\$142,409</u>	<u>\$128,974</u>	<u>\$285,805</u>	<u>\$272,154</u>	<u>\$428,214</u>	<u>\$401,128</u>

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Governmental Activities

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

	2012	2011	Increase (decrease)
Property taxes	\$34,239	\$32,698	\$1,541
Sales taxes	35,473	30,282	5,191
Gross receipts taxes	11,210	11,233	(23)
Hotel/motel taxes	4,606	3,085	1,521
Other taxes	493	487	6
Unrestricted investment earnings	432	783	(351)
Miscellaneous	23	1,076	(1,053)
Total general revenues	<u>\$86,476</u>	<u>\$79,644</u>	<u>\$6,832</u>

The City's general revenues provided \$86.5 million, an increase of \$6.8 million from fiscal year 2011, 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.

Revenues for governmental activities were \$101.5 million, excluding transfers from other funds of \$4.1 million, and were used to pay for expenses associated with governmental activities of \$92.2 million. This is compared with revenues in Fiscal Year 2011 for governmental activities of \$95.0 million, excluding transfers from other funds of \$4.4 million, paying for governmental activities of \$90.1 million in that year.

The primary sources of revenue for governmental activities are taxes, fees, investment earnings and grants and contributions. During fiscal year 2012, property taxes generated \$34.2 million, an increase of \$1.5 million over the previous year, and were derived from a property tax base of \$7.095 billion, up from \$6.757 billion the previous year, combined with a property tax rate of 47.054 cents per hundred dollars valuation, a decrease of 0.00231 cents from the previous year. An economy affected by higher oil prices generated sales taxes of \$35.5 million, an increase from the previous year of \$5.2 million. Gross receipts taxes, or franchise fees, contributed \$11.2 million to operations. Operating grants and contributions provided \$1.5 million, while capital grants and contributions provided another \$3.7 million. Developer contributions comprised \$2.3 million, or 62%, of the total capital contributions. Investment income provided \$0.4 million, a decrease of \$0.4 million. This was due to lower interest rates on the funds available for investment.

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, \$24.0 million, and fire protection, \$22.3 million, represent a combined 50.3% of all governmental activities

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Governmental Activities (continued)

expenses this year, an increase of \$2.14 million from the previous year. Other postemployment benefits accounts for \$2.5 million of the police and fire costs.

Support services for all City functions, \$12.7 million, followed by engineering, \$10.6 million, and community services, \$9.9 million, are the largest governmental activities expenses outside of public safety related costs. The governmental activities expenses were funded with \$9.8 million charged for services rendered, \$1.5 million received as operating grants and contributions, and \$90.6 million in general revenues and transfers. During Fiscal Year 2011, development services, \$13.8 million, followed by the support services for all City functions, \$11.9 million, and community services, \$10.1 million, were the largest governmental activities expenses outside of public safety related costs. The governmental activities expenses for Fiscal Year 2011 were funded with \$9.1 million charged for services rendered, \$1.7 million received as operating grants and contributions, and \$84.0 million in general revenues and transfers.

Business-Type Activities

Fiscal Year 2012 revenues of business-type activities contributed \$81.1 million to the operations of the City of Midland. Expenses of these activities were \$63.3 million before transfers of \$4.1 million, resulting in an increase to the City's net assets of \$13.7 million from business-type activities. Fiscal Year 2011 revenues of business-type activities contributed \$80.8 million to the operations of the City of Midland. Fiscal Year 2011 expenses of these activities were \$63.2 million before transfers of \$4.4 million, resulting in an increase to the City's net assets of \$13.2 million from business-type activities.

Charges for services for business-type activities decreased .04%. Water and Sewer revenue accounts for the largest portion of this decrease. Water restrictions due to drought conditions contributed to a revenue decrease of \$3.5 million from the previous year. Scharbauer Sports Complex had an increase of \$1.4 million from the previous year in contractual revenue based on sales tax receipts. Sanitation charges for services increased \$1.0 million due to an increasing customer base and increased rates. The Airport and Golf Course provided the remainder of business-type activity charges for services.

Grants and contributions, \$6.7 million, and investment earnings, \$0.7 million, were the other components of business-type activity revenue for the City. During Fiscal Year 2011, these two revenue streams were \$5.7 million and \$1.2 million, respectively. The increase in grant revenues during Fiscal Year 2012 is related to funding for a large Airport project constructed during 2012. The \$0.6 million decrease in investment earnings is a result of decreased interest rates and the amount of investable funds.

Expenses of business-type activities were less than combined revenues and grants. The Water and Sewer system had \$37.4 million in expenses, prior to \$2.2 million in transfers, Airport expenses were \$8.8 million, and Sanitation had \$11.2 million in expenses. Expenses were \$4.2 million and \$2.1 million, respectively, for the Scharbauer Sports Complex and Golf Course. Net assets of all business-type activities increased from Fiscal Year 2011.

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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 \$93.6 million, an increase of \$26.1 million in comparison with the prior year. Approximately 52.4% (\$49.0 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 (\$30.3 million), 2) committed and assigned to pay for specific types of expenditures (\$13.4 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 \$49.0 million, compared with \$39.7 million last year, while 2012 total fund balance increased to \$58.7 million from \$48.6 million in 2011. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance currently represents 59.9% of total General Fund expenditures, up from 51.5% in 2011, while total fund balance represents 71.7%, compared with 63.0% in 2011, of that same amount.

Fund balance of the City of Midland's General Fund increased \$10.1 million during the current fiscal year. Key factors in this increase are as follows:

Sales tax receipts, which are driven by numerous economic conditions, were up \$5.2 million in accordance with the growth in the local economy, largely due to higher oil prices. Ad valorem tax revenues increased \$1.5 million due to an increased property valuation base which offset a rate decrease of \$0.00231 per hundred dollar valuation.

Expenditures in total were \$111,561 less than original budget. The major components of this difference included \$1.5 million budgeted for seal coating that was transferred to a multi-year capital project and \$1.1 million reduction in

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Financial Analysis of the Government's Funds (continued)

1. Governmental Funds (continued)

equipment costs related to postponed equipment acquisition with fuel and repair costs below original budget. Capital project expenditures not in the original budget accounted for the \$3.3 million in increases to the budget. Detail of these expenditures by activity is listed in the General Fund Budgetary Highlights below.

The total fund balance for the Debt Service Fund is \$0.4 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 assets of the Water and Sewer Fund at the end of the year amounted to \$51.7 million, a decrease of \$5.7 million from 2011. The change in Water and Sewer total net assets was an increase of \$2.4 million. A year of drought conditions had an impact on water revenue, which was \$3.8 million lower than last year. Capital contributions of \$0.4 million contributed to the increase in total net assets.

Airport Fund unrestricted net assets amounted to \$9.1 million, up from \$8.0 million in Fiscal Year 2011. Airport Fund net assets invested in capital assets, net of related debt, increased by \$3.6 million, and total net assets increased \$4.8 million. The Airport received \$6.2 million in capital and operating grants.

Unrestricted net assets of the Sanitation Fund at the end of the year amounted to \$0.4 million, up from (\$0.6) million in 2011. However, Sanitation Fund net assets invested in capital assets, net of related debt, decreased by \$0.9 million. The resulting change in total net assets of \$0.2 million is mainly attributable to the increase in revenue over the previous fiscal year because of the additional tonnage accepted at the Municipal Solid Waste Facility due to the expanding population base.

The Scharbauer Sports Complex Fund unrestricted net assets increased by \$4.5 million and total net assets increased by \$5.7 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 \$5.8 million.

Unrestricted net assets of the Golf Course Fund at the end of the year amounted to \$(0.3) million, an increase of \$0.3 million from the previous fiscal year.

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

Differences between the original budget and the final amended budget resulted in an increase in appropriations of \$111,720 and can be briefly summarized, in thousands of dollars, as follows:

\$	(43)	decreases allocated to general government activities
\$	80	increases allocated to development services
\$	(1,413)	decreases allocated to engineering
\$	860	increases allocated to community services
\$	(583)	decreases allocated to the police department
\$	1,009	increases allocated to the fire department
\$	202	increases allocated to other

General fund in total had personnel budget increases of \$0.7 million due to mid-year salary adjustments, although open positions in engineering and community services caused personnel budget decreases of \$0.7 million and \$0.3 million, respectively. Engineering also had reductions in seal coating funds (\$1.5 million) that were transferred to a multi-year project and in hire of equipment due to less than anticipated fuel and repair costs (\$0.4 million). The increase in community services was the net of \$1.7 million budgeted for capital projects offset by reductions of \$0.4 million for grounds maintenance, \$0.3 million in water related to usage restrictions caused by the drought and other miscellaneous reductions. The decrease of \$0.6 million in the police department is attributable in part to lower than budgeted hire of equipment (\$0.4 million) due to below budget fuel costs and delayed equipment acquisition. Reduced costs for lodging prisoners (\$0.5 million), which were not estimable at September 30 due to changes in the contract with Midland County, also had an impact. These reductions were offset by increases due to grant-related project costs and various other items. The fire department had increased personnel costs of \$1.1 million. There were also reallocations of original budget amounts among the various activities, including minor capital projects that had a zero dollar net effect.

With the adjustments made during Fiscal Year 2012, the actual-on-a-budgetary-basis expenditures were \$82.1 million, \$77.4 million in Fiscal Year 2011, compared to the re-estimated budget amount of \$82.1 million, \$77.4 million in Fiscal Year 2011.

The City of Midland has an actual-on-a-budgetary-basis General Fund balance of \$58.7 million as of the fiscal year-end (\$48.6 million in Fiscal Year 2011), compared with the re-estimated budget fund balance of \$48.8 million (\$35.8 million in Fiscal Year 2011). The variance in the fund balance is due to the fact that the City of Midland does not adjust budget estimates for revenue items.

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, 2012, amounts to \$373.9 million (net of accumulated

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Capital Assets and Debt Administration (continued)

Capital Assets (continued)

depreciation), \$364.8 million (net of accumulated depreciation) at September 30, 2011. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads and highways, water lines, and drainage improvements.

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 4,852	\$ 4,852	\$ 9,582	\$ 9,582	\$ 14,434	\$ 14,434
Buildings	16,516	12,039	34,979	31,992	51,495	44,031
Improvements other than buildings	6,252	7,514	46,231	39,428	52,483	46,942
Machinery and equipment	17,168	16,796	4,180	4,030	21,348	20,826
Infrastructure	41,757	40,667	151,450	150,796	193,207	191,463
Other	2,540	3,580	1,633	1,923	4,173	5,503
Construction in progress	6,503	9,566	30,306	32,068	36,809	41,634
Totals	<u>\$ 95,588</u>	<u>\$ 95,014</u>	<u>\$ 278,361</u>	<u>\$ 269,819</u>	<u>\$ 373,949</u>	<u>\$ 364,833</u>

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

Engineering – The Jal Draw Channel Rehabilitation project began during 2010. Currently budgeted at \$3.8 million, the project will stabilize the slopes and prevent deterioration of the channel through erosion. Estimated completion date is second quarter of 2013.

The Lamesa Road Repair project began in January 2012. The 5 phase project includes water line replacement, new sidewalk, sewer repair, and traffic signal replacement. Estimated cost is \$1.8 million and estimated completion date is third quarter of 2014.

Community Services – The Martin Luther King Jr. Community Center renovations were completed in February 2012 with an estimated cost of \$2.2 million.

I-20 Wildlife Preserve will be complete January 2013 with an estimated cost of \$2.0 million.

Utilities – Upgrades to the Water Purification Plant continue. The current project is to upgrade the basins and raw water facilities with an estimated cost of \$7.1 million. Scheduled completion is August 2013.

The City is constructing of an interceptor wastewater treatment plant to intercept wastewater and treat it to drinking water standards for irrigation purposes for our largest single site irrigation customer. Project estimated cost is \$6.5 million with an estimated completion date of July 2013.

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Capital Assets and Debt Administration (continued)

Capital Assets (continued)

The water pollution control plant project is scheduled to be complete September 2013. The estimated cost to replace the influent screens at the headworks and rehabilitate the final digester is \$5.4 million.

The Airport and Paul Davis Well field project will upgrade well fields at both locations at an estimated cost of \$4.8 million with a scheduled completion date of May 2013.

Airport Projects – Northwest Taxiway Extension/Northwest Roads and Parking Project was complete as of September 30, 2012 at a cost of \$2.3 million.

The Reconstruct Executive Apron Area B Project, with an estimated cost of \$3.2 million, began in 2012.

Executive Apron Reconstruction Project began in 2011 and was 70% complete as of September 30, 2012. Total project cost is estimated to be \$3.3 million.

Rehab Taxiway Systems Project will be complete in fiscal year 2013 at an estimated cost of \$4.6 million.

Additional information regarding capital asset activity of the City of Midland may be found in note #6 in the Notes to Basic Financial Statements.

Long-Term Debt

At the end of the current fiscal year, the City of Midland had total bonded debt outstanding of \$141.7 million. Of this amount, \$38.3 million is general government debt, \$38 million supported through the interest and sinking fund levy on property taxes and \$0.3 million supported by Water and Sewer system revenues. Business-type activity debt is supported by Water and Sewer system revenues, \$76.2 million, Golf Course revenues, \$0.2 million, a combination of Airport revenues and Airport passenger facility charges, \$6.0 million, and a contract with the Midland Football/Soccer and Baseball Development Corporation, \$21.1 million.

Table 5
Outstanding Bonded Debt, at Year-end
(in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds serviced by tax revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of Obligation serviced by tax revenues	38,042	26,579	-	-	38,042	26,579
Notes Payable	285	370	-	-	285	370
Certificates of Obligation serviced by Enterprise Funds revenues	-	-	65,223	50,013	65,223	50,013
General Obligation Bonds serviced by Enterprise Funds revenues	-	-	27,247	30,316	27,247	30,316
Revenue Bonds	-	-	10,955	12,685	10,955	12,685
	<u>\$ 38,327</u>	<u>\$ 26,949</u>	<u>\$ 103,425</u>	<u>\$ 93,014</u>	<u>\$ 141,752</u>	<u>\$ 119,963</u>

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012
(Unaudited)

Capital Asset and Debt Administration (continued)

Long-Term Debt (continued)

The City of Midland's total bonded debt increased by \$21.8 million during the current fiscal year. Debt serviced by tax revenues increased by \$11.4 million and debt serviced by Enterprise Fund revenues increased by \$10.4 million.

The City maintains Aa1 rating with Moody's Investment Service and AA+ rating with Standard & Poor's on tax-supported debt and Aa3 rating with Moody's Investment Service and AA rating with Standard & Poor's for water and sewer revenue debt. Water and Sewer Junior Lien debt is rated Aa3 and AA- by the two agencies, respectively.

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.

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 \$436.1 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.

Economic Factors and Next Year's Budgets and Rates

The budgetary process for Fiscal Year 2013 focused on the allocation of limited resources to maintenance of the current level of City services. The combined property tax rate was increased to 46.1088 cents per \$100 valuation, compared with a rate of 47.054 in Fiscal Year 2012. The budget presented for all City operations for the 2013 fiscal year totals \$206.7 million. This is a 14.0% increase from the Fiscal Year 2012 budget of \$181.3 million.

The Fiscal Year 2013 operating budget is supported by combined revenues of \$187.5 million, up \$16.4 million from budgeted Fiscal Year 2012. Sales tax revenue and property tax revenue reflect the largest amount of increase over fiscal year 2012, at \$5.1 million and \$2.1 million, respectively. Other major components of this increase include \$3.6 million in water and sewer

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012
(Unaudited)

Economic Factors And Next Year's Budgets and Rates (continued)

revenue and \$1.4 million increase in hotel/motel, with anticipated higher occupancy rates and the addition of new hotels. The Sanitation revenue increased by \$1.1 million because of an increase in rates and an expanding service area.

Total General Fund revenues for Fiscal Year 2013 are budgeted at \$90.6 million, an increase of \$7.8 million from budgeted Fiscal Year 2012 revenues. Factors impacting the budget include increases of \$5.1 million in sales tax revenue and \$1.4 million in property tax revenue.

The increase in budgeted sales tax revenue is driven by numerous economic conditions. These receipts were up in accordance with a growing economy in Fiscal Year 2012. The growth of new businesses in the City and an increasing population also generated a positive influence. The increased collections from property taxes are the result of a larger property tax base offset by a decrease in the maintenance and operations property tax rate to 40.4049 cents per \$100 valuation, compared with a rate of 41.845 in Fiscal Year 2012. Gross receipts taxes are calculated as a percentage of revenue for various utilities. As the revenues increase or decrease, so do the associated franchise fees.

The expenditures budget for the General Fund is \$90.6 million. This yields a balanced budget for the 2013 fiscal year. The General Fund Unappropriated Fund Balance at its current level in relation to expenditures is essential for bond ratings, self-insurance considerations, disaster recovery and major economic or regulatory changes.

The Water and Sewer Fund revenues are estimated to increase by 8.11% from budgeted 2011 – 2012 revenues. This increase is based upon consideration of several factors, including September rainfall events that increased our water supply together with T-Bar well field scheduled to come on line by June 1 2013, both increasing the amount of water available to sell. Annual water and sewer revenues should provide adequate cash flow for the fund. Also, this fund is required by debt covenants to maintain a net revenue to debt ratio of 1.5. The current rate structure should provide adequate revenues to meet this requirement.

Water and Sewer Fund expenses are budgeted to increase \$8,103,524, 15.75%, from the previous fiscal year. The largest single component of this increase is a decrease in interfund transfers and an increase in contractual services. In addition, the cost of water delivery to the City is expected to increase \$10.1 million.

Sanitation Fund revenues are estimated to increase by 10.4% during fiscal year 2012-2013. This increase is based upon consideration of several factors, including increased customer numbers, a rate increase per ton for dumping at the sanitary landfill, and enactment of a \$25.00 haulers permit fee effective October 1, 2012. Revenues generated should provide adequate cash flow to meet the operating needs of the fund and provide for small capital expenditures.

Expenses of this fund are budgeted to increase 4.3% from the previous year. An increase of \$0.6 million in hire of equipment is related to increased fuel costs and the acquisition of new equipment. A portion of the landfill costs result from unfunded, federally mandated regulations and are mainly reflected in depreciation of capitalized costs and landfill closure costs.

CITY OF MIDLAND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012
(Unaudited)

Economic Factors and Next Year's Budgets and Rates (continued)

The Sanitation Fund derives revenue from Litter Abatement Contributions and incurs expenses for litter abatement programs. These fines and fees were established by the City to assist with litter abatement through a program of contributions by citizens through their utility bills

and fines levied against the owners of offending properties. The contribution rate is \$1 per month, effective in fiscal year 2013. Revenues of \$138,000 and expenses of \$343,605 are budgeted for this program.

Golf Course revenues are budgeted at \$2.0 million, reflecting a 13.86% increase compared to fiscal year 2012 budgeted revenues. The operation of the pro shop, which was contracted out prior to 2009, is the major source of this increase combined with amended fees and charges that were passed by ordinance, February 28, 2012.

The Golf Course Player Facility Charge (GPFC) is currently \$3.75 per round. One dollar of this amount is being used to assist with debt service costs associated with construction of the additional nine holes and expansion of other golf course facilities. The remaining \$2.75 is being used to pay for costs associated with a new irrigation system and other course improvements of \$2.1 million. The GPFC revenue is not available for general golf course operations and is not reflected in the revenue estimates.

Budgeted Airport Fund revenues reflect a \$0.4 million increase, with an increase in parking lot revenue. Airport Passenger Facility Charge revenues to be used in capital construction projects and the repayment of a major portion of the debt issued for construction of the new terminal building at the airport are not included in this total due to use restrictions.

Budgeted Airport expenses are expected to increase \$0.7 million or 7.00% mainly due to depreciation expense. A reimbursement of \$1.5 million was budgeted to the General Fund for the cost of Fire and Police personnel assigned to the Airport, as well as other administrative costs. This charge was based upon a cost allocation study prepared by DMG Maximus in accordance with Office of Management and Budget Circular A-87 (OMB A-87).

The Scharbauer Sports Complex Fund was established to account for all facets of the operations of the Scharbauer Sports Complex. Fiscal Year 2013 revenues of \$3.7 million are budgeted to cover expenses of \$5.5 million, after consideration of \$1.8 in depreciation expense.

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 Assets
September 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Sports Complex Development	Midland Development Corporation
ASSETS					
Cash and cash equivalents	\$ 42,969,326	\$ 70,112,412	\$ 113,081,738	\$ -	\$ 26,512,145
Investments	28,399,490	30,608,812	59,008,302	-	-
Receivables (net of allowance for uncollectibles)	11,800,759	8,202,028	20,002,787	1,551,488	1,551,488
Interest receivable	66,842	102,093	168,935	-	-
Due from component unit	-	1,551,488	1,551,488	-	-
Due from primary government	-	-	-	-	7,520,000
Internal balances	(568,064)	568,064	-	-	-
Inventories	352,053	446,382	798,435	-	-
Prepaid items and other assets	112,770	69,666	182,436	-	-
Notes receivable	-	242,140	242,140	-	3,325,000
Deferred charges	369,073	864,478	1,233,551	-	-
Investment in joint venture	16,018	-	16,018	-	-
Restricted assets:					
Cash and cash equivalents	29,723,984	24,961,165	54,685,149	-	-
Investments	4,790,344	6,230,574	11,020,918	-	-
Interest receivable	12,868	1,198	14,066	-	-
Capital assets not being depreciated:					
Land	4,851,815	9,582,401	14,434,216	-	727,969
Construction in progress	6,502,662	30,305,743	36,808,405	-	-
Capital assets net of accumulated depreciation:					
Buildings	16,516,354	34,978,807	51,495,161	-	1,063,774
Improvements other than buildings	6,252,159	46,231,075	52,483,234	-	343,073
Machinery and equipment	17,168,024	4,180,079	21,348,103	-	20,344
Infrastructure	41,757,232	151,449,963	193,207,195	-	417,732
Intangible and other	2,539,543	1,632,683	4,172,226	-	-
Total assets	<u>213,633,252</u>	<u>422,321,251</u>	<u>635,954,503</u>	<u>1,551,488</u>	<u>41,481,525</u>
LIABILITIES					
Accounts payable and other current liabilities	7,917,139	7,332,767	15,249,906	-	57,285
Customer deposits	-	2,776,318	2,776,318	-	-
Accrued interest payable	387,719	737,629	1,125,348	-	-
Due to primary government	-	-	-	1,551,488	-
Due to component unit	595,000	6,925,000	7,520,000	-	-
Unearned revenue	232,588	190,226	422,814	-	-
Noncurrent liabilities:					
Due within one year	7,778,715	7,386,418	15,165,133	-	15,000
Due in more than one year	54,313,489	111,167,356	165,480,845	-	10,341
Total liabilities	<u>71,224,650</u>	<u>136,515,714</u>	<u>207,740,364</u>	<u>1,551,488</u>	<u>82,626</u>
NET ASSETS					
Invested in capital assets, net of related debt	79,950,737	189,427,031	269,377,768	-	2,572,892
Restricted for:					
Debt service	26,025	7,228,596	7,254,621	-	-
Rate stabilization	-	5,000,000	5,000,000	-	-
Special revenue	8,990,317	-	8,990,317	-	-
Other purposes	210,897	-	210,897	-	20,036,000
Unrestricted	<u>53,230,626</u>	<u>84,149,910</u>	<u>137,380,536</u>	<u>-</u>	<u>18,790,007</u>
Total net assets	<u>\$ 142,408,602</u>	<u>\$ 285,805,537</u>	<u>\$ 428,214,139</u>	<u>\$ -</u>	<u>\$ 41,398,899</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, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating	Capital	Primary Government			Component Units		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	Sports Complex Development	Midland Development Corporation	
Primary government:										
Governmental activities:										
General government:										
Administration	\$ 1,419,691	\$ 240,307	\$ -	\$ -	\$ (1,179,384)	\$ -	\$ (1,179,384)	\$ -	\$ -	
Support services	12,749,373	319,902	-	-	(12,429,471)	-	(12,429,471)	-	-	
Fiscal management	2,225,291	60,315	-	-	(2,164,976)	-	(2,164,976)	-	-	
Other	4,120,660	-	1,000	75,302	(4,044,358)	-	(4,044,358)	-	-	
Development services	3,534,375	1,998,231	772,946	435,479	(327,719)	-	(327,719)	-	-	
Engineering	10,642,676	1,963	-	2,256,798	(8,383,915)	-	(8,383,915)	-	-	
Community services	9,933,581	898,904	370,990	950,496	(7,713,191)	-	(7,713,191)	-	-	
Police	24,025,334	4,272,412	328,916	7,098	(19,416,908)	-	(19,416,908)	-	-	
Fire	22,289,161	2,015,471	-	-	(20,273,690)	-	(20,273,690)	-	-	
Interest on long-term debt	1,221,970	-	-	-	(1,221,970)	-	(1,221,970)	-	-	
Total governmental activities	<u>92,162,112</u>	<u>9,807,505</u>	<u>1,473,852</u>	<u>3,725,173</u>	<u>(77,155,582)</u>	<u>-</u>	<u>(77,155,582)</u>	<u>-</u>	<u>-</u>	
Business-type activities:										
Airport	8,835,469	8,816,871	229,749	5,949,640	-	6,160,791	6,160,791	-	-	
Water and sewer	37,401,624	41,236,729	-	375,333	-	4,210,438	4,210,438	-	-	
Sanitation	10,813,252	11,636,597	153,235	-	-	976,580	976,580	-	-	
Sports complex	4,242,836	9,781,813	-	-	-	5,538,977	5,538,977	-	-	
Golf course	2,056,066	2,348,194	-	-	-	292,128	292,128	-	-	
Total business-type activities	<u>63,349,247</u>	<u>73,820,204</u>	<u>382,984</u>	<u>6,324,973</u>	<u>-</u>	<u>17,178,914</u>	<u>17,178,914</u>	<u>-</u>	<u>-</u>	
Total primary government	<u>\$ 155,511,359</u>	<u>\$ 83,627,709</u>	<u>\$ 1,856,836</u>	<u>\$ 10,050,146</u>	<u>(77,155,582)</u>	<u>17,178,914</u>	<u>(59,976,668)</u>	<u>-</u>	<u>-</u>	
Component units:										
Sports Complex Development Corporation	\$ 8,872,054	\$ -	\$ 3,900	\$ -	-	-	-	(8,868,154)	-	
Midland Economic Development Corporation	1,525,268	-	-	-	-	-	-	-	(1,525,268)	
Total component units	<u>\$ 10,397,322</u>	<u>\$ -</u>	<u>\$ 3,900</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,868,154)</u>	<u>(1,525,268)</u>	
General revenues:										
Property taxes					34,238,579	-	34,238,579	-	-	
Sales taxes					35,472,615	-	35,472,615	8,868,154	8,868,154	
Gross receipts taxes					11,210,488	-	11,210,488	-	-	
Hotel-motel taxes					4,606,037	-	4,606,037	-	-	
Other taxes					493,405	-	493,405	-	-	
Unrestricted investment earnings					431,732	587,737	1,019,469	-	28,668	
Miscellaneous					22,017	-	22,017	-	155,948	
Transfers					4,115,018	(4,115,018)	-	-	-	
Total general revenues and transfers					<u>90,589,891</u>	<u>(3,527,281)</u>	<u>87,062,610</u>	<u>8,868,154</u>	<u>9,052,770</u>	
Change in net assets					13,434,309	13,651,633	27,085,942	-	7,527,502	
Net assets – beginning					<u>128,974,293</u>	<u>272,153,904</u>	<u>401,128,197</u>	<u>-</u>	<u>33,871,397</u>	
Net assets – ending					<u>\$ 142,408,602</u>	<u>\$ 285,805,537</u>	<u>\$ 428,214,139</u>	<u>\$ -</u>	<u>\$ 41,398,899</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, 2012

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 33,708,173	\$ 239,564	\$ 28,729,537	\$ 62,677,274
Investments	22,280,369	159,793	5,509,149	27,949,311
Receivables (net of allowance for uncollectibles):				
Interest receivable	64,541	651	14,518	79,710
Property taxes	564,711	107,542	353,151	1,025,404
Sales taxes	6,205,953	-	-	6,205,953
Accounts receivable	2,594,464	4,360	1,189,879	3,788,703
Assessments receivable	517,257	-	-	517,257
Intergovernmental receivable	183,823	-	98,027	281,850
Prepaid items and other assets	39,724	-	-	39,724
Due from other funds	85,448	-	-	85,448
Advances to other funds	842,221	-	-	842,221
	<u>\$ 67,086,684</u>	<u>\$ 511,910</u>	<u>\$ 35,894,261</u>	<u>\$ 103,492,855</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,477,678	\$ -	\$ 301,921	\$ 1,779,599
Accrued payroll	2,640,806	-	-	2,640,806
Retainage payable	124,917	-	21,819	146,736
Due to other funds	-	-	23,669	23,669
Due to component unit	595,000	-	-	595,000
Deferred revenue	2,369,942	98,166	943,149	3,411,257
Unearned revenue	158,809	-	73,779	232,588
Other liabilities	1,042,012	-	1	1,042,013
Total liabilities	<u>8,409,164</u>	<u>98,166</u>	<u>1,364,338</u>	<u>9,871,668</u>
Fund balances:				
Nonspendable:				
Prepayments	39,724	-	-	39,724
Advances	842,221	-	-	842,221
Restricted for:				
Debt service	-	413,744	-	413,744
Public safety	54,855	-	809,604	864,459
Court	156,042	-	685,740	841,782
Communications	-	-	3,590,536	3,590,536
Downtown	-	-	644,886	644,886
Buildings and renovations	-	-	7,823,627	7,823,627
Streets and drainage	-	-	8,376,344	8,376,344
Parks and recreation	-	-	2,359,965	2,359,965
Other purposes	-	-	5,433,282	5,433,282
Committed to:				
Buildings and renovations	43,442	-	245,817	289,259
Streets and drainage	6,045,481	-	1,482,584	7,528,065
Parks and recreation	251,574	-	-	251,574
Public safety	890,256	-	-	890,256
Technology	701,554	-	-	701,554
Other Purposes	554,611	-	3,077,538	3,632,149
Assigned to:				
Streets and drainage	73,228	-	-	73,228
Unassigned:				
General fund	49,024,532	-	-	49,024,532
Total fund balances	<u>58,677,520</u>	<u>413,744</u>	<u>34,529,923</u>	<u>93,621,187</u>
Total liabilities and fund balances	<u>\$ 67,086,684</u>	<u>\$ 511,910</u>	<u>\$ 35,894,261</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	77,700,742
The City has an equity interest in a joint venture. This investment is not a current financial resource and, therefore, is not reported in the funds.	16,018
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	3,530,330
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 assets (net of amount allocated to business-type activities of \$3,880,430)	
Cash	\$ 10,016,036
Investments	5,240,523
Receivables	231,592
Capital assets net of depreciation	17,887,047
Internal balances	(1,472,064)
Other assets	425,099
Current liabilities	(2,307,985)
Noncurrent liabilities	(3,438,672)
	26,581,576
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(59,041,251)
Net assets of governmental activities	<u>\$ 142,408,602</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, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 29,626,195	\$ 3,695,569	\$ 986,238	\$ 34,308,002
Sales	35,472,615	-	-	35,472,615
Gross receipts	11,210,488	-	-	11,210,488
Mixed beverage	383,897	-	-	383,897
Hotel-motel	-	-	4,606,037	4,606,037
Miscellaneous	109,508	-	-	109,508
Licenses and permits	1,936,372	-	483,094	2,419,466
Fines and forfeitures	3,808,669	-	-	3,808,669
Charges for services	2,685,136	-	-	2,685,136
Rentals	11,344	-	201,618	212,962
Assessments	-	-	121,572	121,572
Intergovernmental	1,442,040	-	1,133,716	2,575,756
Investment earnings:				
Interest income	335,174	6,036	95,199	436,409
Net decrease in the fair value of investments	17,353	460	6,086	23,899
Contributions and donations	277,895	-	-	277,895
Miscellaneous	211,057	-	418,814	629,871
Total revenues	<u>87,527,743</u>	<u>3,702,065</u>	<u>8,052,374</u>	<u>99,282,182</u>
EXPENDITURES				
Current:				
General government:				
Administration	1,229,487	-	-	1,229,487
Support services	11,986,500	-	-	11,986,500
Fiscal management	2,154,462	-	-	2,154,462
Development services	2,484,995	-	-	2,484,995
Engineering	7,700,839	-	-	7,700,839
Community services	10,597,142	-	-	10,597,142
Police	22,766,719	-	-	22,766,719
Fire	20,918,880	-	-	20,918,880
Other	2,004,107	-	3,000,405	5,004,512
Debt service:				
Principal	-	2,891,115	-	2,891,115
Interest	-	954,843	-	954,843
Debt issuance costs	-	-	157,813	157,813
Paying agents' fees	-	1,051	-	1,051
Capital outlay	-	-	1,153,962	1,153,962
Total expenditures	<u>81,843,131</u>	<u>3,847,009</u>	<u>4,312,180</u>	<u>90,002,320</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,684,612</u>	<u>(144,944)</u>	<u>3,740,194</u>	<u>9,279,862</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt	-	-	13,589,132	13,589,132
Premium on debt issuance	-	-	770,560	770,560
Accrued interest on debt issuance	-	499	-	499
Transfers in	4,932,814	110,183	-	5,042,997
Transfers out	(515,103)	-	(2,019,724)	(2,534,827)
Total other financing sources (uses)	<u>4,417,711</u>	<u>110,682</u>	<u>12,339,968</u>	<u>16,868,361</u>
Net change in fund balances	<u>10,102,323</u>	<u>(34,262)</u>	<u>16,080,162</u>	<u>26,148,223</u>
Fund balances – beginning	<u>48,575,197</u>	<u>448,006</u>	<u>18,449,761</u>	<u>67,472,964</u>
Fund balances – ending	<u>\$ 58,677,520</u>	<u>\$ 413,744</u>	<u>\$ 34,529,923</u>	<u>\$ 93,621,187</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, 2012

Amounts reported for governmental activities in the statement of activities (page 20) are different because:

Net change in fund balances—total governmental funds (page 22)	\$ 26,148,223
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 depreciation exceeded capital outlays in the current period.	(1,687,416)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	2,254,817
Governmental funds report investment in joint venture as an expenditure. However, in the statement of activities, the equity interest is treated as an asset.	(140,959)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (i.e., deferred revenues and earned but unavailable revenues).	(131,099)
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 assets. Also, governmental funds report the effect of issuance costs, 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.	(11,311,263)
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.	(3,885,009)
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>2,187,015</u>
Change in net assets of governmental activities (page 20)	\$ <u>13,434,309</u>

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

CITY OF MIDLAND, TEXAS
Statement of Net Assets
Proprietary Funds
September 30, 2012

	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	\$ 7,426,776	\$ 35,836,344	\$ 7,809,063	\$ 17,666,626	\$ 1,204,111	\$ 69,942,920	\$ 10,185,528
Investments	1,967,326	21,750,302	5,305,537	560,163	912,430	30,495,758	5,353,577
Interest receivable	6,587	75,983	14,524	2,184	2,550	101,828	13,787
Accounts receivable (net of allowance for uncollectibles)	1,667,719	5,905,255	574,369	32,857	21,828	8,202,028	218,070
Notes receivable	-	-	-	-	-	-	124,000
Inventories	-	-	-	-	200,958	200,958	597,477
Prepaid items and other assets	-	62,398	-	7,268	-	69,666	73,046
Due from component unit	-	-	-	1,551,488	-	1,551,488	-
Restricted assets:							
Customer deposits:							
Cash and cash equivalents	-	1,665,430	-	-	-	1,665,430	-
Investments	-	1,110,868	-	-	-	1,110,868	-
Bond construction fund:							
Cash and cash equivalents	272,738	15,856,195	-	9,035	-	16,137,968	-
Investments	43,336	4,661	-	880	-	48,877	-
Bond debt service:							
Cash and cash equivalents	495,193	1,257,614	-	719,742	32,720	2,505,269	-
Investments	339,261	1,071,140	-	480,079	6,776	1,897,256	-
Interest receivable	-	-	-	1,198	-	1,198	-
Total current assets	<u>12,218,936</u>	<u>84,596,190</u>	<u>13,703,493</u>	<u>21,031,520</u>	<u>2,381,373</u>	<u>133,931,512</u>	<u>16,565,485</u>
Noncurrent assets:							
Restricted assets:							
Bond retirement reserve:							
Cash and cash equivalents	-	2,826,071	-	-	-	2,826,071	-
Rate stabilization funds:							
Cash and cash equivalents	-	1,826,427	-	-	-	1,826,427	-
Investments	-	3,173,573	-	-	-	3,173,573	-
Total restricted assets	<u>-</u>	<u>7,826,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,826,071</u>	<u>-</u>
Capital assets:							
Land	1,571,906	8,500,313	-	227,240	-	10,299,459	108,701
Buildings	51,297,049	1,423,894	283,543	28,395	412,104	53,444,985	1,816,924
Improvements other than buildings	5,731,652	15,577,249	13,765,848	45,301,585	4,460,640	84,836,974	846,955
Infrastructure	74,518,857	189,911,270	-	-	-	264,430,127	-
Machinery and equipment	5,481,313	2,487,653	315,135	2,561,029	6,272	10,851,402	41,983,028
Intangible and Other	996,072	2,281,741	119,969	-	16,372	3,414,154	4,703,108
Construction in progress	8,688,519	20,900,061	712,148	5,015	-	30,305,743	45,250
Less accumulated depreciation	<u>(70,257,827)</u>	<u>(75,816,712)</u>	<u>(13,253,308)</u>	<u>(17,640,416)</u>	<u>(2,827,747)</u>	<u>(179,796,010)</u>	<u>(31,043,002)</u>
Total capital assets (net of accumulated depreciation)	<u>78,027,541</u>	<u>165,265,469</u>	<u>1,943,335</u>	<u>30,482,848</u>	<u>2,067,641</u>	<u>277,786,834</u>	<u>18,460,964</u>
Other noncurrent assets:							
Notes receivable	-	242,140	-	-	-	242,140	1,236,932
Debt origination fees	30,403	665,658	-	166,704	1,713	864,478	-
Total noncurrent assets	<u>78,057,944</u>	<u>173,999,338</u>	<u>1,943,335</u>	<u>30,649,552</u>	<u>2,069,354</u>	<u>286,719,523</u>	<u>19,697,896</u>
Total assets	<u>90,276,880</u>	<u>258,595,528</u>	<u>15,646,828</u>	<u>51,681,072</u>	<u>4,450,727</u>	<u>420,651,035</u>	<u>36,263,381</u>

LIABILITIES

Current liabilities:

Accounts payable	1,134,258	3,533,165	549,183	44,886	115,999	5,377,491	2,231,709
Accrued payroll	90,019	247,274	146,764	-	27,762	511,819	84,540
Retainage payable	111,103	988,435	-	-	-	1,099,538	-
Due to other funds	61,779	-	-	-	-	61,779	-
Due to component unit	-	6,925,000	-	-	-	6,925,000	-
Customer deposits	-	2,776,318	-	-	-	2,776,318	-
Revenue bonds payable							
from unrestricted assets	-	1,061,667	-	-	-	1,061,667	-
General obligation bonds payable							
from unrestricted assets	579,167	-	-	795,833	27,865	1,402,865	-
Deferred amount on refunding	(1,136)	141,997	-	(156,765)	990	(14,914)	-
Certificates of obligation payable							
from unrestricted assets	-	821,250	-	-	-	821,250	-
Notes payable	-	-	-	-	124,000	124,000	-
Compensated absences	139,605	183,394	76,911	-	40,659	440,569	80,037
Estimated unpaid claims	-	-	-	-	-	-	1,126,867
Unearned revenue	-	25,800	47,156	25,000	92,270	190,226	-
Other liabilities	8,332	223,508	97,110	-	5,784	334,734	921

Current liabilities payable from restricted assets:

Accrued interest payable	23,621	626,671	-	86,852	485	737,629	-
Revenue bonds payable	-	758,333	-	-	-	758,333	-
General obligation bonds payable	810,833	-	-	1,114,167	39,011	1,964,011	-
Certificates of obligation payable	-	943,750	-	-	-	943,750	-
Total current liabilities	<u>2,957,581</u>	<u>19,256,562</u>	<u>917,124</u>	<u>1,909,973</u>	<u>474,825</u>	<u>25,516,065</u>	<u>3,524,074</u>

Noncurrent liabilities:

Revenue bonds payable	-	9,135,000	-	-	-	9,135,000	-
General obligation bonds payable	4,600,000	-	-	19,955,000	127,261	24,682,261	-
Deferred amount on refunding	(1,377)	1,965,952	-	(645,160)	1,037	1,320,452	-
Certificates of obligation payable	-	61,350,000	-	-	-	61,350,000	-
Compensated absences	75,178	87,935	22,570	-	25,644	211,327	50,328
Other postemployment benefits payable	510,871	1,446,522	763,214	-	157,874	2,878,481	542,207
Estimated unpaid claims	-	-	-	-	-	-	1,684,766
Notes payable	-	-	-	-	1,236,932	1,236,932	-
Advances from other funds	-	-	-	-	842,221	842,221	-
Landfill closure/postclosure care	-	-	11,553,189	-	-	11,553,189	-
Total noncurrent liabilities	<u>5,184,672</u>	<u>73,985,409</u>	<u>12,338,973</u>	<u>19,309,840</u>	<u>2,390,969</u>	<u>113,209,863</u>	<u>2,277,301</u>
Total liabilities	<u>8,142,253</u>	<u>93,241,971</u>	<u>13,256,097</u>	<u>21,219,813</u>	<u>2,865,794</u>	<u>138,725,928</u>	<u>5,801,375</u>

NET ASSETS

Invested in capital assets, net of related debt	72,150,748	103,457,866	1,943,335	9,429,688	1,871,477	188,853,114	20,417,226
Restricted for debt service	834,454	5,154,825	-	1,199,821	39,496	7,228,596	-
Restricted for rate stabilization	-	5,000,000	-	-	-	5,000,000	-
Unrestricted	<u>9,149,425</u>	<u>51,740,866</u>	<u>447,396</u>	<u>19,831,750</u>	<u>(326,040)</u>	<u>80,843,397</u>	<u>10,044,780</u>
Total net assets	<u>\$ 82,134,627</u>	<u>\$ 165,353,557</u>	<u>\$ 2,390,731</u>	<u>\$ 30,461,259</u>	<u>\$ 1,584,933</u>	<u>281,925,107</u>	<u>\$ 30,462,006</u>

Reconciliation to government-wide statement of net assets:

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

3,880,430

Net assets of business-type activities

\$ 285,805,537

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 Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2012

Business-Type Activities—Enterprise Funds

	Airport Fund	Water and Sewer Fund	Sanitation Fund	Scharbauer Sports Complex Fund	Nonmajor Fund	Totals	Governmental Activities— Internal Service Funds
Operating revenues:							
International Airport parking revenues	\$ 2,245,055	\$ -	\$ -	\$ -	\$ -	\$ 2,245,055	\$ -
International Airport building rentals	3,107,199	-	-	-	-	3,107,199	-
International Airport aviation rentals	234,823	-	-	-	-	234,823	-
International Airport landing fees	435,169	-	-	-	-	435,169	-
International Airport commercial rentals	181,789	-	-	-	-	181,789	-
International Airport fuel and oil commissions	98,528	-	-	-	-	98,528	-
Airpark rentals	145,220	-	-	-	-	145,220	-
Airpark fuel and oil commissions	18,874	-	-	-	-	18,874	-
Water sales	-	29,533,842	-	-	-	29,533,842	-
Sewer charges	-	10,040,328	-	-	-	10,040,328	-
Tap installations and service charges	-	337,546	-	-	-	337,546	-
Garbage collection fees	-	-	11,399,973	-	-	11,399,973	-
Penalties	-	357,377	89,254	-	-	446,631	-
Course usage fees	-	-	-	-	820,485	820,485	-
Golf cart fees	-	-	-	-	533,959	533,959	-
Pro shop rentals	-	-	-	-	12,311	12,311	-
Pro shop sales	-	-	-	-	697,691	697,691	-
Tournament fees	-	-	-	-	3,165	3,165	-
Snack bar concession rentals	-	-	-	-	51,828	51,828	-
Football-soccer stadium	-	-	-	447,955	-	447,955	-
Baseball stadium	-	-	-	353,347	-	353,347	-
Common areas	-	-	-	67,200	-	67,200	-
Billings to other funds	-	-	-	-	-	-	10,473,165
Motor vehicle repair billings	-	-	-	-	-	-	4,279,898
Motor vehicle lease charges	-	-	-	-	-	-	4,676,714
Equipment lease—other	-	-	-	-	-	-	973,549
Charges for fuel	-	-	-	-	-	-	2,681,580
Employee payments	-	-	-	-	-	-	2,072,230
Miscellaneous	95,197	160,771	-	-	-	255,968	-
Total operating revenues	<u>6,561,854</u>	<u>40,429,864</u>	<u>11,489,227</u>	<u>868,502</u>	<u>2,119,439</u>	<u>61,468,886</u>	<u>25,157,136</u>
Operating expenses:							
Cost of goods sold	-	-	-	-	490,655	490,655	1,488,160
Salaries and fringe benefits	1,929,992	5,392,602	3,229,078	-	598,647	11,150,319	2,065,388
Contractual services	1,816,722	18,718,955	4,921,902	783,842	642,557	26,883,978	4,788,714
Maintenance of structure	65,661	412,906	16,577	298,424	46,903	840,471	17,440
Maintenance of equipment	52,287	335,035	46,172	13,689	11,237	458,420	1,474,616
Payment of claims	-	-	-	-	-	-	7,653,066
Franchise fees	-	2,398,143	436,372	-	-	2,834,515	-
Depreciation	4,425,147	5,812,161	1,055,646	1,724,233	203,055	13,220,242	3,881,361
Closure and postclosure care	-	-	782,961	-	-	782,961	-
Supplies	64,927	1,805,380	641,784	79,300	78,298	2,669,689	3,098,798
Other expenses	154,132	15	77,111	69,001	-	300,259	2,140
Total operating expenses	<u>8,508,868</u>	<u>34,875,197</u>	<u>11,207,603</u>	<u>2,968,489</u>	<u>2,071,352</u>	<u>59,631,509</u>	<u>24,469,683</u>

Operating income (loss)	<u>(1,947,014)</u>	<u>5,554,667</u>	<u>281,624</u>	<u>(2,099,987)</u>	<u>48,087</u>	<u>1,837,377</u>	<u>687,453</u>
Nonoperating revenues (expenses):							
Investment income:							
Interest income	40,386	454,322	69,459	37,542	12,165	613,874	117,581
Net increase in the fair value of investments	3,835	30,140	6,405	3,770	1,537	45,687	4,858
Interest expense	(330,302)	(2,559,556)	-	(1,274,819)	(51,856)	(4,216,533)	-
Rentals	-	167,534	-	-	-	167,534	-
Water royalties	55,827	-	-	-	-	55,827	-
Intergovernmental grants	229,749	-	8,000	-	-	237,749	-
Gain on sale of capital assets	-	-	-	-	-	-	111,868
Recoveries of damages to City property	-	-	-	-	-	-	25,254
Passenger facility charge revenues	2,126,221	-	-	-	-	2,126,221	-
Player facility charge revenues	-	-	-	-	225,353	225,353	-
SCDC construction contract revenue	-	-	-	8,868,154	-	8,868,154	-
Litter abatement contributions	-	-	145,235	-	-	145,235	-
Other	59,297	612,994	147,371	12,449	2,674	834,785	133,568
Total nonoperating revenues	<u>2,185,013</u>	<u>(1,294,566)</u>	<u>376,470</u>	<u>7,647,096</u>	<u>189,873</u>	<u>9,103,886</u>	<u>393,129</u>
Income before contributions and transfers	<u>237,999</u>	<u>4,260,101</u>	<u>658,094</u>	<u>5,547,109</u>	<u>237,960</u>	<u>10,941,263</u>	<u>1,080,582</u>
Capital contributions	5,949,640	375,333	-	-	-	6,324,973	-
Transfers in	-	-	-	515,103	-	515,103	2,000,000
Transfers out	<u>(1,409,574)</u>	<u>(2,231,837)</u>	<u>(492,332)</u>	<u>(372,595)</u>	<u>(99,218)</u>	<u>(4,605,556)</u>	<u>(417,717)</u>
Change in net assets	4,778,065	2,403,597	165,762	5,689,617	138,742	13,175,783	2,662,865
Total net assets – beginning	<u>77,356,562</u>	<u>162,949,960</u>	<u>2,224,969</u>	<u>24,771,642</u>	<u>1,446,191</u>		<u>27,799,141</u>
Total net assets – ending	<u>\$ 82,134,627</u>	<u>\$ 165,353,557</u>	<u>\$ 2,390,731</u>	<u>\$ 30,461,259</u>	<u>\$ 1,584,933</u>		<u>\$ 30,462,006</u>

Reconciliation to government-wide statements of activities:

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

475,850

Change in net assets of business-type activities

\$ 13,651,633

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, 2012

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	\$ 5,765,181	\$ 40,023,841	\$ 11,474,618	\$ 952,113	\$ 2,136,427	\$ 60,352,180	\$ 1,959,295
Receipts from interfund services provided	55,827	-	-	-	-	55,827	23,180,854
Payments to suppliers	(1,544,266)	(22,665,255)	(6,068,278)	(1,735,551)	(1,364,546)	(33,377,896)	(17,997,066)
Payments to employees	(1,797,103)	(5,068,925)	(3,025,079)	-	(559,070)	(10,450,177)	(1,952,409)
Payments for interfund services used	(100,613)	(55,827)	-	-	-	(156,440)	-
Receipts from other operating revenues	59,297	780,528	147,371	12,449	2,674	1,002,319	-
Net cash provided (used) by operating activities	<u>2,438,323</u>	<u>13,014,362</u>	<u>2,528,632</u>	<u>(770,989)</u>	<u>215,485</u>	<u>17,425,813</u>	<u>5,190,674</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Grants and contributions	229,749	-	153,235	-	-	382,984	-
Transfers from other funds	-	-	-	515,103	-	515,103	2,000,000
Transfers to other funds	(1,409,574)	(2,231,837)	(492,332)	(372,595)	(99,218)	(4,605,556)	(417,717)
Advances from other funds	-	-	-	-	22,562	22,562	-
Net cash provided (used) by noncapital financing activities	<u>(1,179,825)</u>	<u>(2,231,837)</u>	<u>(339,097)</u>	<u>142,508</u>	<u>(76,656)</u>	<u>(3,684,907)</u>	<u>1,582,283</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Issuance of capital debt	-	16,652,623	-	-	-	16,652,623	-
Payment of debt origination fees	-	(82,347)	-	-	-	(82,347)	-
Loans from component units	-	925,000	-	-	-	925,000	-
Capital contributions	5,949,640	5,664	-	-	-	5,955,304	-
Acquisition and construction of capital assets	(6,733,260)	(12,950,115)	(175,504)	(1,234,633)	-	(21,093,512)	(3,850,137)
Principal paid on capital debt and notes payable	(1,320,000)	(3,165,000)	-	(1,830,000)	(88,885)	(6,403,885)	-
Repayment of loans to other funds	-	-	-	-	(120,442)	(120,442)	120,442
Interest and fees paid on capital debt and notes payable	(316,750)	(2,643,000)	-	(1,074,990)	(52,262)	(4,087,002)	-
Proceeds from sales of capital assets	-	1,557	-	-	-	1,557	124,821
Passenger facility charge revenues	2,126,221	-	-	-	-	2,126,221	-
Player facility charge revenues	-	-	-	-	225,353	225,353	-
SCDC contract revenue	-	-	-	8,646,833	-	8,646,833	-
Net cash provided (used) by capital and related financing activities	<u>(294,149)</u>	<u>(1,255,618)</u>	<u>(175,504)</u>	<u>4,507,210</u>	<u>(36,236)</u>	<u>2,745,703</u>	<u>(3,604,874)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(2,349,923)	(27,110,545)	(5,305,537)	(1,041,122)	(919,206)	(36,726,333)	(5,353,577)
Proceeds from maturities of investments	2,344,374	29,100,693	4,506,179	1,260,225	814,720	38,026,191	4,994,633
Interest received	46,567	523,917	78,775	43,452	14,214	706,925	125,615
Net cash provided (used) by investing activities	<u>41,018</u>	<u>2,514,065</u>	<u>(720,583)</u>	<u>262,555</u>	<u>(90,272)</u>	<u>2,006,783</u>	<u>(233,329)</u>
Net increase in cash and cash equivalents	1,005,367	12,040,972	1,293,448	4,141,284	12,321	18,493,392	2,934,754
Cash and cash equivalents at beginning of year	<u>7,189,340</u>	<u>47,227,109</u>	<u>6,515,615</u>	<u>14,254,119</u>	<u>1,224,510</u>	<u>76,410,693</u>	<u>7,250,774</u>
Cash and cash equivalents at end of year	<u>\$ 8,194,707</u>	<u>\$ 59,268,081</u>	<u>\$ 7,809,063</u>	<u>\$ 18,395,403</u>	<u>\$ 1,236,831</u>	<u>\$ 94,904,085</u>	<u>\$ 10,185,528</u>

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

Operating income (loss)	\$ <u>(1,947,014)</u>	\$ <u>5,554,667</u>	\$ <u>281,624</u>	\$ <u>(2,099,987)</u>	\$ <u>48,087</u>	\$ <u>1,837,377</u>	\$ <u>687,453</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation expense	4,425,147	5,812,161	1,055,646	1,724,233	203,055	13,220,242	3,881,361
Other income	115,124	780,528	147,371	12,449	2,674	1,058,146	158,822
Change in assets and liabilities:							
(Increase) decrease in accounts receivable	(801,903)	(576,859)	(28,117)	83,611	1,061	(1,322,207)	(175,809)
Increase in inventories	-	-	-	-	(40,360)	(40,360)	(28,290)
Increase in prepaid items and other assets	-	(33,261)	-	(7,268)	-	(40,529)	(53,046)
Decrease in public improvement district	-	44,725	-	-	-	44,725	-
Increase (decrease) in accounts payable	742,560	698,214	71,640	(484,027)	(54,536)	973,851	754,515
Increase (decrease) in accrued payroll	(655)	(1,557)	3,349	-	2,437	3,574	379
Increase (decrease) retainage payable	(133,097)	284,399	-	-	-	151,302	-
Decrease in due to other funds	(100,613)	-	-	-	-	(100,613)	-
Increase in customer deposits	-	69,755	-	-	-	69,755	-
Decrease in estimated unpaid claims	-	-	-	-	-	-	(147,510)
Increase in unearned revenue	-	-	13,560	-	14,745	28,305	-
Increase (decrease) in compensated absences	5,381	(32,866)	(13,780)	-	(2,614)	(43,879)	(20,062)
Increase in other postemployment benefits	128,163	358,100	214,430	-	39,754	740,447	132,662
Increase in closure/postclosure care	-	-	782,961	-	-	782,961	-
Increase (decrease) in other liabilities	5,230	56,356	(52)	-	1,182	62,716	199
Total adjustments	<u>4,385,337</u>	<u>7,459,695</u>	<u>2,247,008</u>	<u>1,328,998</u>	<u>167,398</u>	<u>15,588,436</u>	<u>4,503,221</u>
Net cash provided (used) by operating activities	<u>\$ 2,438,323</u>	<u>\$ 13,014,362</u>	<u>\$ 2,528,632</u>	<u>\$ (770,989)</u>	<u>\$ 215,485</u>	<u>\$ 17,425,813</u>	<u>\$ 5,190,674</u>

Noncash investing, capital, and financing activities:

Change in fair value of investments	\$ 3,835	\$ 30,140	\$ 6,405	\$ 3,770	\$ 1,537	\$ 45,687	\$ 4,858
Contributions of capital assets	-	369,669	-	-	-	369,669	-

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, 2012

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CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2012

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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

- 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 statements to be misleading or incomplete. GASB Statement No. 14, as amended by GASB Statement No. 39, 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) and the Midland Development Corporation (MDC) 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

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

A. The Financial Reporting Entity (continued)

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. Complete audited financial statements of the SCDC and MDC 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 (MOUTD) 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 MOUTD is to be exclusively governed by both City Councils or through an equally appointed board. At September 30, 2012, the Transit Board (the Board) is the official governing agency of MOUTD. 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 MOUTD 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

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

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

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 assets and the statement of activities) report information on all of the nonfiduciary 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 and 39. The government-wide statement of net assets reports all financial and capital resources of the City and is presented in an "assets minus liabilities equal net assets" format. Assets and liabilities are presented in relative order of liquidity with liabilities that have an average maturity of more than one year separated into the amount due within one year and the amount due in more than one year.

The government-wide statement of activities identifies the relative financial burden of each of the 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

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)C. Government-wide and Fund Financial Statements (continued)

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. 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. Exchange and exchange-like transactions, transactions in which the City gives or receives value and receives or gives equal value, that create revenues, expenses, gains, losses, assets or liabilities are recognized when the exchange occurs. Nonexchange transactions, transactions in which the City gives or receives value without receiving or giving equal value in exchange, that result in revenues, expenses, gains, losses, assets or liabilities are recognized in accordance with GASB Statement No. 33, as amended by GASB Statement No's. 34 and 36. The treatment of nonexchange transactions is grouped in four classes based upon the principal characteristics of the transaction and reported according to those characteristics. 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 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

D. Measurement Focus and Basis of Accounting (continued)

“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, 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 and assessments. Deferred revenue is recorded for assessments that are not available to meet liabilities of the current period. This deferred revenue is offset against assessments receivable to present a net amount that is both measurable and available to meet the liabilities of the current period.

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 assets view of increases (revenues) and decreases (expenses) in the fund.

Enterprise funds apply all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply pronouncements of FASB issued after November 30, 1989, in accordance with

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)D. Measurement Focus and Basis of Accounting (continued)

GASB Statement No. 20. 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.

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 most nonexchange and exchange-like 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)
 - D. Measurement Focus and Basis of Accounting (continued)
 1. Governmental Funds (continued)
 - c. Other Governmental Funds (continued)
 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 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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)D. Measurement Focus and Basis of Accounting (continued)2. Proprietary Funds (continued)

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.

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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)F. Inventories and Prepaid Items

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

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

G. Receivables, Payables and Interfund Transactions

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

H. Capital Assets

Capital assets 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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)H. Capital Assets (continued)

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 2012, \$0.35 million 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 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

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 assets.

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 the effective interest rate method. In the fund level statements, governmental fund types recognize these items in the current period.

L. Retirement Plans

The City has two separate defined-benefit retirement plans that cover substantially all employees. The Texas Municipal Retirement System 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. The City's contributions to both funds are recorded on an accrual basis.

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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

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 or resolution. 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.

2. Reconciliation of Government-Wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between fund balance - total government funds and net assets - governmental activities as reported in the government-wide statement of net assets. 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 \$59,041,251 difference are as follows:

Bonds, notes payable and certificates of obligation payable	\$38,326,981
Accrued interest payable	387,719
Compensated absences	5,367,200
Other postemployment benefits	<u>14,959,351</u>

Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$59,041,251</u>
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Another element of that reconciliation states that "Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred funds."

The details of this \$3,530,330 difference are as follows:

Property taxes receivable	\$ 574,450
Lot clearing and paving liens receivable (net)	1,560,080
Municipal court fines receivable (net)	1,026,727
Unamortized debt issuance costs	<u>369,073</u>

Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 3,530,330</u>
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(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

2. Reconciliation of Government-Wide and Fund Financial Statements (continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund 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 assets 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 (\$1,687,416) difference are as follows:

Capital outlay (includes \$2,867,311 reported in General Fund functional activities)	\$4,021,273
Depreciation expense	<u>(5,708,689)</u>
Net adjustment to decrease <i>net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>(\$1,687,416)</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 assets.”

The details of this \$2,254,817 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.	\$2,254,817
Net adjustment to increase <i>net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$2,254,817</u>

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 assets.”

Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

2. Reconciliation of Government-Wide and Fund Financial Statements (continued)

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

The details of this (\$11,311,263) difference are as follows:

Debt issued or incurred:	
Issuance of certificates of obligation	(\$13,589,132)
Plus premium	(770,560)
Plus accrued interest received	(499)
Deferral of issuance costs	157,813
Principal repayments:	
General obligation debt	1,486,115
Certificates of obligation	1,320,000
Notes payable	<u>85,000</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	
	<u>(\$11,311,263)</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 (\$3,885,009) difference are as follows:

Reversal of prior year interest accrual	\$ 84,895
Accrued interest	(387,719)
Amortization of issuance and reacquisition costs	36,748
Change in compensated absences	201,161
Change in other postemployment benefits	<u>(3,820,094)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	
	<u>(\$3,885,009)</u>

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

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

3. Deposits and Investments (continued)

September 30, 2012. At September 30, 2012, the carrying amount of cash for the City and MDC was (\$1,287,947) and \$1,997,101, respectively. The bank balance of (\$192,885) was insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000. The remaining bank balance was collateralized by securities, fair value of \$7,565,756 at September 30, 2012, held in the City's name by the Federal Reserve Bank of Minneapolis as agent for the City.

In addition to these bank balances, the Federal Reserve Bank serves as Custodian for eligible federal treasury and agency securities in the amount of \$70,029,220.

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.

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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

3. Deposits and Investments (continued)

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 four individuals from participating Government Entities in the pool and one unaffiliated individual. The business and affairs of LOGIC are managed by the Board. J.P. Morgan Investment Management, Inc. provides investment management, fund accounting, transfer agency and custodial services for the pool and First Southwest Asset Management, Inc. provides administrative, marketing and participant services. The Texas Treasury Safekeeping Trust Company (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. ch. 2256. TexStar is governed by a five-member Board of Directors comprising three government

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

3. Deposits and Investments (continued)

officials or employees and two other persons with expertise in public finance. Additionally, TexStar has a five-member advisory board.

Fair value of the City's position in 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, 2012, the City invested in no reverse repurchase agreements.

Credit Risk – In compliance with the City's investment policy, as of September 30, 2012, 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 70.7% 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, 2012, the weighted average portfolio maturity was 2.86 years.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

3. Deposits and Investments (continued)

The City's investments carried at fair value as of September 30, 2012 are:

Investments:	Primary Government	Component Units	Total	Weighted Average Maturity (in years)	Credit Risk
FHLB	\$ 70,029,220	\$ -	\$ 70,029,220	9.77	AAA
Subtotal investments	70,029,220	-	70,029,220		
2a7-Like Pools	169,054,834	24,515,044	193,569,878	-	AAAm
Total Fair Value	\$ 239,084,054	\$ 24,515,044	\$ 263,599,098		
Portfolio Weighted Average Maturity				2.86	

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, 2012, more than 5% of the City's investments are in Federal Home Loan Bank notes. This investment is 29.3% of the City's total portfolio. The investments in 2a7-like pools balance as of September 30, 2012, consisted of TexPool, LOGIC, and TexStar in the amounts of \$86,156,452, \$182,537, and \$107,230,889, 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 2011 tax roll or Fiscal Year 2011–2012 was \$0.47054 per \$100.00 assessed valuation, resulting in a tax levy in the amount of \$33,384,453 on an assessed valuation of \$7,094,923,400. The levy is composed of maintenance and operations levy of \$0.41845 and an interest and sinking fund (debt service) levy of \$0.05209 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

5. Receivables

Receivables as of September 30, 2012 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	\$ 64,541	\$ 651	\$ 6,587	\$ 75,983	\$ 14,524	\$ 3,382	\$ 30,855	\$ 196,523
Property Taxes	713,155	126,020	-	-	-	-	353,151	1,192,326
Sales Taxes	6,205,953	-	-	-	-	-	-	6,205,953
Accounts	5,550,167	4,360	380,112	6,745,930	600,773	32,857	1,429,777	14,743,976
Assessments	517,257	-	-	-	-	-	-	517,257
Intergovernmental	183,823	-	1,305,230	-	8,000	-	98,027	1,595,080
Gross receivables	13,234,896	131,031	1,691,929	6,821,913	623,297	36,239	1,911,810	24,451,115
Less: allowance for Uncollectibles	(3,104,147)	(18,478)	(17,623)	(840,675)	(34,404)	-	-	(4,015,327)
Net total receivables	<u>\$ 10,130,749</u>	<u>\$ 112,553</u>	<u>\$ 1,674,306</u>	<u>\$ 5,981,238</u>	<u>\$ 588,893</u>	<u>\$ 36,239</u>	<u>\$ 1,911,810</u>	<u>\$ 20,435,788</u>

The City reports deferred revenue, revenue earned but not available to liquidate liabilities of the current period, and unearned revenue, revenue received but not yet earned, in its governmental funds. At September 30, 2012, the composition of these revenues was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$ 476,284	\$ -
Lot clearing receivable (General Fund)	349,674	-
Municipal Court fines (General Fund)	1,026,727	-
Delinquent property taxes receivable (Debt Service Fund)	98,166	-
Lot clearing receivable (other governmental funds)	943,149	-
Street paving liens receivable (General Fund)	517,257	-
Grant drawdowns prior to meeting all eligibility requirements	-	232,448
Prepayment of various charges	-	140
Total deferred/unearned revenue for governmental funds	<u>\$ 3,411,257</u>	<u>\$ 232,588</u>

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

6. Capital Assets

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

Primary Government

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,851,815	\$ -	\$ -	\$ 4,851,815
Construction in progress	9,565,945	3,870,563	(6,933,846)	6,502,662
Total capital assets, not being depreciated	<u>14,417,760</u>	<u>3,870,563</u>	<u>(6,933,846)</u>	<u>11,354,477</u>
Capital assets, being depreciated:				
Buildings	21,851,960	4,782,284	457,138	27,091,382
Improvements other than buildings	15,001,898	173,588	(792,808)	14,382,678
Machinery and equipment	47,584,001	4,055,111	(1,344,248)	50,294,864
Infrastructure	88,581,802	4,163,532	335,670	93,081,004
Other	8,786,621	14,995	-	8,801,616
Total capital assets, being depreciated	<u>181,806,282</u>	<u>13,189,510</u>	<u>(1,344,248)</u>	<u>193,651,544</u>
Less accumulated depreciation for:				
Buildings	(9,812,587)	(762,441)	-	(10,575,028)
Improvements other than buildings	(7,487,774)	(642,745)	-	(8,130,519)
Machinery and equipment	(30,788,487)	(3,669,647)	1,331,294	(33,126,840)
Infrastructure	(47,914,386)	(3,409,386)	-	(51,323,772)
Other	(5,207,170)	(1,054,903)	-	(6,262,073)
Total accumulated depreciation	<u>(101,210,404)</u>	<u>(9,539,122)</u>	<u>1,331,294</u>	<u>(109,418,232)</u>
Total capital assets, being depreciated, net	<u>80,595,878</u>	<u>3,650,388</u>	<u>(12,954)</u>	<u>84,233,312</u>
Governmental activities capital assets, net	<u>\$ 95,013,638</u>	<u>\$ 7,520,951</u>	<u>\$ (6,946,800)</u>	<u>\$ 95,587,789</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 9,582,401	\$ -	\$ -	\$ 9,582,401
Construction in progress	32,068,493	20,373,952	(22,136,702)	30,305,743
Total capital assets, not being depreciated	<u>41,650,894</u>	<u>20,373,952</u>	<u>(22,136,702)</u>	<u>39,888,144</u>
Capital assets, being depreciated:				
Water rights	63,282,528	-	-	63,282,528
Buildings	717,058	-	-	717,058
Improvements other than buildings	49,255,298	4,213,491	-	53,468,789
Machinery and equipment	74,778,118	10,558,856	-	85,336,974
Infrastructure	10,071,357	867,705	(87,660)	10,851,402
Other	256,493,229	7,936,898	-	264,430,127
Other	3,538,259	-	-	3,538,259
Total capital assets, being depreciated	<u>394,853,319</u>	<u>23,576,950</u>	<u>(87,660)</u>	<u>418,342,609</u>
Less accumulated depreciation for:				
Water rights	(717,058)	-	-	(717,058)
Buildings	(17,263,852)	(1,226,130)	-	(18,489,982)
Improvements other than buildings	(35,350,120)	(3,755,779)	-	(39,105,899)
Machinery and equipment	(6,041,280)	(716,146)	86,103	(6,671,323)
Infrastructure	(105,697,441)	(7,282,723)	-	(112,980,164)
Other	(1,615,184)	(290,392)	-	(1,905,576)
Total accumulated depreciation	<u>(166,684,935)</u>	<u>(13,271,170)</u>	<u>86,103</u>	<u>(179,870,002)</u>
Total capital assets, being depreciated, net	<u>228,168,384</u>	<u>10,305,780</u>	<u>(1,557)</u>	<u>238,472,607</u>
Business-type activities capital assets, net	<u>\$ 269,819,278</u>	<u>\$ 30,679,732</u>	<u>\$ (22,138,259)</u>	<u>\$ 278,360,751</u>

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

6. Capital Assets (continued)

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

Governmental activities:	
General government	
Administration	\$ 109,014
Support services	350,706
Development services	1,261
Engineering	3,698,741
Community services	1,057,236
Police	192,302
Fire	299,429
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of assets	<u>3,830,433</u>
Total depreciation expense – governmental activities	<u>\$ 9,539,122</u>
Business-type activities:	
Airport	\$ 4,425,147
Water and sewer	5,863,089
Sanitation	1,055,646
Scharbauer sports complex	1,724,233
Nonmajor fund	<u>203,055</u>
Total depreciation expense – business-type activities	<u>\$ 13,271,170</u>

Discretely Presented Component Units

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

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

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit PlansA. Texas Municipal Retirement System1. Plan Description

The City provides pension benefits for all of its full-time employees who are not firefighters through a nontraditional, joint contributory, hybrid defined-benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 847 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 847 municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2011 valuations are contained in the 2011 TMRS Comprehensive Annual Financial Report, the report is available on TMRS' website at www.TMRS.com.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit, which is a theoretical amount that, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City-matching percentage had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City are as follows:

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

7. Employee Benefit Plans (continued)

A. Texas Municipal Retirement System (continued)

2. Funding Policy

Under the State law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. 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 (i.e., December 31, 2011 valuation is effective for rates beginning January 2013).

Contributions by the City were \$7,580,704 or 22.01% of covered payroll of \$34,442,094 as required by the actuarial valuation. Total payroll for Fiscal Year 2012 was \$50,110,665. Annual TMRS pension cost, net pension obligation (NPO) and related information for the last three years is as follows:

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)

A. Texas Municipal Retirement System (continued)

2. Funding Policy (continued)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual required contribution (ARC)	\$ 7,580,704	\$ 7,600,134	\$ 7,306,910
Annual pension cost	7,580,704	7,600,134	7,306,910
Contributions made	7,580,704	7,600,134	7,306,910
Change in NPO	-	-	-
NPO, beginning of year	-	-	-
NPO, end of year	\$ -	\$ -	\$ -
Contributions as a percentage of annual pension cost	100%	100%	100%
Actuarial valuation date	December 31, 2010	December 31, 2010	December 31, 2009
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level % of payroll	Level % of payroll	Level % of payroll
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Amortization period	26.0-year closed period	26.9-year closed period	28-year closed period
Actuarial assumptions:			
Investment rate of return	7%	7.0%	7.5%
Inflation rate	3.0%	3.0%	3.0%
Cost-of-living adjustments	1.5%	1.5%	1.5%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service

3. Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 84.5% funded. The actuarial accrued liability for benefits was \$239.8 million, and the actuarial value of assets was \$210.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$29.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$34.4 million, and the ratio of UAAL to the covered payroll was 84.5%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)

A. Texas Municipal Retirement System (continued)

3. Funded Status and Funding Progress (continued)

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used includes techniques that are designed too reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents the six-year historical trend information relative to the funding progress and employer contributions.

B. Midland Firemen's Relief and Retirement Fund

1. Plan Description

The Board of Trustees of the Midland Firemen's Relief and Retirement Fund (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, 2011. 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, 2012, a copy of which may be obtained by writing the Midland Firemen's Relief and Retirement Fund Board of Trustees, 1500 W. Wall, Midland, TX 79701.

A degree of financial dependence upon the City does exist to the extent the City makes contributions to the Fund equal to 20.2% 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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)B. Midland Firemen's Relief and Retirement Fund (continued)1. Plan Description (continued)

Firefighters in the Midland Fire Department are covered by the Midland Firemen's Relief and Retirement Fund. The table below summarizes the membership of the fund at December 31, 2011, December 31, 2010, and December 31, 2009:

	Dec. 31, <u>2011</u>	Dec. 31, <u>2010</u>	Dec. 31, <u>2009</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	131	129	130
Current employees			
a. Vested	109	84	107
b. Nonvested	<u>81</u>	<u>106</u>	<u>81</u>
Total	<u>321</u>	<u>319</u>	<u>318</u>

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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)B. Midland Firemen's Relief and Retirement Fund (continued)1. Plan Description (continued)

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

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

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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)B. Midland Firemen's Relief and Retirement Fund (continued)1. Plan Description (continued)

The plan was amended on October 1, 2008 to include a cost of living adjustment. Eligible firefighters and beneficiaries will receive payment on August 1 following the fifth full audited year of receipt of benefits by a firefighter and following a firefighter's physical departure from the Fire Department.

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 makes contributions equal to 20.20% of pay as authorized by Ordinance 8930 that adopted the Fiscal Year 2012 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).

a. Basis of Accounting – The Midland Firemen's Relief and Retirement Fund financial statements are prepared using the accrual basis of accounting. The fund's fiscal year is a calendar year. Employee and employer contributions are recognized as revenues in the period in which they are received by the Fund for benefit purposes but reported as accrued in the audited statements. Benefits paid and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

b. Method Used to Value Investments – The Midland Firemen's Relief and Retirement Fund's investments are reported at fair value. Investments in securities traded on a national securities exchange are valued based on the latest quoted market price as of each year-end. Investments that are not traded on a national securities exchange are valued at their fair values determined by the Trustees based on the market values of similar investments or on the basis of information obtained from qualified sources such as the custodial bank trust department, brokers, pricing services or appraisers.

2. Summary of Significant Accounting Policies and Plan Asset Matters

In accordance with the policy of stating investments at market value, the amount reflected as the net appreciation (depreciation) in fair value represents the net changes in market values from the beginning of the year or date of purchase (whichever is later) to the end of the year,

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)

B. Midland Firemen's Relief and Retirement Fund (continued)

2. Summary of Significant Accounting Policies and Plan Asset Matters (cont.)

adjusted for securities sold during the year. The fund has investments in Westwood Trust Smid Cap Equity, 2514 Multi-Strategy Fund Limited Partnership, and Loomis Sayles Multisector Trust that represent 5% or more of the Fund's net assets. The fair value of these investments is \$9,084,198, \$6,477,584, and \$5,000,000, respectively. The Midland Firemen's Relief and Retirement Fund adopted the current plan effective October 1, 2000, amended November 1, 2002 and October 1, 2008.

3. Funding Status and Progress

The Fund is required by statute to conduct actuarial studies once every three years and conducted the last study December 31, 2011 for the plan in effect at that time. The following disclosures relative to the funding and progress of the plan are made for the plan in effect and for the plan year ended December 31, 2011.

The funding policy of the Fund requires contributions equal to 13.2% of pay by the firefighters and 20.2% of pay by the City of Midland, effective October 1, 2007.

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 either the adequacy or inadequacy of the financing arrangement of the contribution commitments by the firefighters and the City.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)

B. Midland Firemen's Relief and Retirement Fund (continued)

3. Funding Status and Progress (continued)

Contributions by the City were \$2,477,724, or 20.2% of covered payroll of \$12,265,959, as required by the actuarial valuation. Total payroll for fiscal year 2012 was \$50,110,665. Annual FRRF pension cost, NPO and related information for the last three years are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ARC	\$ 2,477,724	\$ 2,331,557	\$ 2,348,033
Annual pension cost	2,477,724	2,331,557	2,348,033
Contributions made	<u>2,477,724</u>	<u>2,331,557</u>	<u>2,348,033</u>
Change in NPO	-	-	-
NPO, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
NPO, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions as a percentage of annual pension cost	100%	100%	100%
Actuarial valuation date	December 31, 2011	N/A	December 31, 2009
Actuarial cost method	Entry age normal	N/A	Entry age normal
Amortization method	Level % of payroll	N/A	Level % of payroll
Asset valuation method	Smoothed market value	Smoothed market value	Smoothed market value
Amortization period	41.2 years open	N/A	41.2 years open
Actuarial assumptions:			
Investment rate of return	8.00%	8.00%	8.00%
Inflation rate	3.00%	3.00%	3.00%
Cost-of-living adjustments	2.00% after 5 years	2.00% after 5 years	2.00% after 5 years
Projected salary increases	11.50%–6.00%	11.50%–6.00%	11.50%–6.00%

As of January 1, 2012, the most recent actuarial valuation date, the plan was 72.2% funded. The actuarial accrued liability for benefits was \$101.2 million, and the actuarial value of assets was \$73.1 million, resulting in an UAAL of \$28.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$12.3 million, and the ratio of the UAAL to the covered payroll was 229.0%.

The required supplementary information reporting the six-year historical trend information relative to the FRRF's funding progress and employer contributions is presented in the RSI Section of the City's CAFR, following the notes.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)

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.

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 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 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

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)F. Other Postemployment Retirement Benefits (OPEB) (continued)1. Plan Description (continued)

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, 2012, 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, 2012, 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, 2012 were \$553,228, and there were 343 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)

F. Other Postemployment Retirement Benefits (OPEB) (continued)

3. Annual OPEB Cost and Net OPEB Obligation (continued)

	OPEB
Annual required contribution	\$5,387,901
Interest on net OPEB obligation	415,086
Adjustment to annual required contribution	(705,912)
Annual OPEB cost (expense)	5,097,075
Contributions made	553,228
Adjust Balance to Actuarial Study	149,356
Increase in net OPEB obligation	4,693,203
Net OPEB obligation – beginning of the year	13,686,836
Net OPEB obligation – end	\$18,380,039

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the preceding years were as follows:

Fiscal Year	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$4,970,163	9.6%	\$4,492,264
2010	\$5,111,625	9.8%	\$9,102,094
2011	\$5,111,626	9.8%	\$13,686,836
2012	\$5,097,075	10.8%	\$18,380,039

Funded Status and Funding Progress

The date of the most recent actuarial valuation date is May 2012. As of September 30, 2012, the actuarial accrued liability for benefits was \$52,657,298, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$50,110,665, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 105%. 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 increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

7. Employee Benefit Plans (continued)F. Other Postemployment Retirement Benefits (OPEB) (continued)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 May 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0 percent inflation rate and investment rate of return. The annual healthcare cost trend rate assumption is 11 percent initially, reduced by decrements to an ultimate rate of 5.5 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, 2012, was thirty years.

8. Operating Leases

The City enters in operating leases involving terminal space and other airport facilities at Midland International Airport. Additionally, the City has entered into an operating lease for use of and naming rights for the Citibank Ballpark and Grande Stadium at the Scharbauer Sports Complex. Current year income for these leases was \$3,669,031 and \$401,551 for the Airport and Sports Complex, respectively. Minimum future rentals on noncancelable operating leases as of September 30, 2012 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
2013	\$ 1,822,054	\$ 253,790	\$ 2,075,844
2014	758,064	228,790	986,854
2015	383,198	228,790	611,988
2016	383,198	228,790	611,988
2017	383,198	228,790	611,988
2018–2022	495,020	855,832	1,350,852
2023–2027	538,066	195,000	733,066
2028–2032	581,111	-	581,111
2033–2037	602,634	-	602,634
Total	<u>\$ 5,946,543</u>	<u>\$ 2,219,782</u>	<u>\$ 8,166,325</u>

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

8. Operating Leases (continued)

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

Airport

A. Airline Exclusive Space and Joint Use Space

Scheduled airlines operating at Midland International Airport 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 Airport 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 will terminate at midnight on January 31, 2014, unless terminated sooner according to various provisions within each agreement.

B. 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, 2014. 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 Midland International Airport (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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

8. Operating Leases (continued)C. 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 year's actual rent payments. In no event will the annual guarantee be lower than the base year. All Car Rental Concession agreements expire January 31, 2013.

D. 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, 2019.

Scharbauer Sports ComplexA. Citibank Ballpark Use Lease

The Citibank 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 Citibank 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 and 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

8. Operating Leases (continued)

Scharbauer Sports Complex

B. Citibank Ballpark Naming Rights

The Citibank naming rights license agreement is an agreement between the City and Citibank Texas to name the baseball stadium at the Scharbauer Sports Complex Citibank Ballpark. The full term of this agreement is 25 years and is divided into five units of 5 years each. The first 5 years is the initial term, the next 5 years is the second term, and so on through the fifth term of the agreement. The agreement requires payments of \$385,000, \$414,856, \$469,371, \$450,000, and \$450,000 during the initial through fifth terms, respectively.

The agreement is cancelable any time during the initial or second terms upon payment of \$150,000 to the City. Additionally, the agreement is cancelable at the end of the first or second terms upon proper written notification to the City by Citibank and payment of any additional license payments due during the term plus \$25,000. The agreement is cancelable at any time during the final three terms of the agreement upon one year written notice with no penalties.

C. 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.

D. 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt

The following is a summary of debt transactions, including current portion, for the year ended September 30, 2012:

	Balance at October 1, <u>2011</u>	<u>Increase</u>	<u>Decrease</u>	Balance at September 30, <u>2012</u>	Due Within <u>One Year</u>
Governmental Activities:					
General Obligation Bonds	\$ 4,731,979	\$ -	\$ (1,486,115)	\$ 3,245,864	\$ 1,118,125
Certificates of Obligation	21,565,000	13,590,000	(1,320,000)	33,835,000	1,610,000
Plus Deferred Amounts for issuance premiums	287,274	770,191	(93,238)	964,227	103,451
Less Deferred Amounts on Refunding	<u>(5,346)</u>	<u>-</u>	<u>2,236</u>	<u>(3,110)</u>	<u>(1,542)</u>
Total Bonds Payable	26,578,907	14,360,191	(2,897,117)	38,041,981	2,830,034
Notes Payable	370,000	-	(85,000)	285,000	90,000
Compensated Absences Liability	5,704,347	4,941,183	(5,173,288)	5,472,242	3,731,814
Other Postemployment Benefits Payable	11,534,205	4,383,255	(436,112)	15,481,348	-
Self-Insurance Liability	<u>2,959,143</u>	<u>7,653,066</u>	<u>(7,800,576)</u>	<u>2,811,633</u>	<u>1,126,867</u>
Total Governmental Activity					
Long-term Debt	<u>\$ 47,146,602</u>	<u>\$ 31,337,695</u>	<u>\$ (16,392,093)</u>	<u>\$ 62,092,204</u>	<u>\$ 7,778,715</u>
Business-Type Activities:					
Water and Sewer:					
Revenue Bonds	\$ 12,685,000	\$ -	\$ (1,730,000)	\$ 10,955,000	\$ 1,820,000
Certificates of Obligation	48,695,000	15,855,000	(1,435,000)	63,115,000	1,765,000
Plus Deferred Amounts for issuance premiums	1,318,416	899,400	(109,867)	2,107,949	141,997
Airport:					
General Obligation Refunding Bonds	7,310,000	-	(1,320,000)	5,990,000	1,390,000
Less Deferred Amounts on Refunding	(3,967)	-	1,454	(2,513)	(1,136)
Sports Complex:					
General Obligation Refunding Bonds	23,695,000	-	(1,830,000)	21,865,000	1,910,000
Less Deferred Amounts on Refunding	(971,843)	-	169,918	(801,925)	(156,765)
Nonmajor Fund:					
General Obligation Refunding Bonds	283,021	-	(88,885)	194,136	66,876
Plus Deferred Amounts on Refunding	<u>3,452</u>	<u>-</u>	<u>(1,425)</u>	<u>2,027</u>	<u>990</u>
Total Bonds Payable	93,014,079	16,754,400	(6,343,805)	103,424,674	6,936,962
Water and Sewer Fund:					
Notes Payable (a)	6,000,000	-	(6,000,000)	-	-
Compensated Absences Liability	318,636	325,282	(347,266)	296,652	192,281
Other Postemployment Benefits Payable	1,103,019	439,766	(76,053)	1,466,732	-
Sanitation Fund:					
Closure/postclosure care	10,770,228	782,961	-	11,553,189	-
Compensated Absences Liability	113,261	165,528	(179,308)	99,481	76,911
Other Postemployment Benefits Payable	548,784	242,191	(27,761)	763,214	-
Airport Fund:					
Compensated Absences Liability	209,402	139,561	(134,180)	214,783	139,605
Other Postemployment Benefits Payable	382,708	141,465	(13,302)	510,871	-
Nonmajor Fund:					
Compensated Absences Liability	68,917	16,088	(18,702)	66,303	40,659
Other Postemployment Benefits Payable	<u>118,120</u>	<u>39,754</u>	<u>-</u>	<u>157,874</u>	<u>-</u>
Total Business-Type					
Activity Long-term Debt	<u>\$ 112,647,154</u>	<u>\$ 19,046,996</u>	<u>\$ (13,140,377)</u>	<u>\$ 118,553,773</u>	<u>\$ 7,386,418</u>

a. Notes Payable was reclassified to Current Liability-Due to Component Unit.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt (continued)

Long-term debt at September 30, 2012 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>3,245,864</u>	\$ 570,857–1,118,125	1
Total				\$ <u>3,245,864</u>		
Certificates of obligation serviced by tax revenues:						
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2003	\$ 4,950,000	3.50–4.00%	2018	\$ 2,415,000	\$ 360,000–450,000	4
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2005	4,950,000	3.50–4.00%	2020	3,040,000	330,000–435,000	5
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2007	6,910,000	4.00–5.00%	2027	5,860,000	280,000–530,000	7
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2009	9,855,000	3.00–4.25%	2029	8,930,000	400,000–700,000	9
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2012	13,590,000	3.00–4.25%	2032	<u>13,590,000</u>	240,000–950,000	10
Total				\$ <u>33,835,000</u>		
Notes payable:						
HUD Section 108 Note Payable	\$ 1,045,000	6.08–6.25%	2015	\$ <u>285,000</u>	\$ 90,000–100,000	3
General obligation bonds serviced by Enterprise Fund revenues:						
Airport Fund:						
General Obligation Refunding Bonds, Series 2006A	\$ 13,160,000	4.00–5.00%	2016	\$ 5,990,000	\$ 1,390,000–1,605,000	1
Scharbauer Sports Complex Fund:						
General Obligation Refunding Bonds, Series 2006B	28,970,000	4.00–5.00%	2022	21,865,000	835,000–2,800,000	6
Nonmajor Fund:						
General Obligation Refunding Bonds, Series 2009	461,074	3.00%	2016	<u>194,136</u>	34,143–66,875	1
Total				\$ <u>28,049,136</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	\$ 2,195,000	\$ 515,000–585,000	1
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2007	48,595,000	4.00–5.00%	2037	45,065,000	975,000–3,035,000	8
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2012	15,855,000	3.00–4.25%	2032	<u>15,855,000</u>	275,000–1,110,000	10
Total				\$ <u>63,115,000</u>		
Revenue bonds:						
Waterworks and Sewer Fund Senior Lien Bonds:						
Waterworks and Sewer System Revenue Refunding Bonds, Series 2002	\$ 10,460,000	5.00%	2013	\$ <u>1,245,000</u>	1,245,000	1
Total				1,245,000		
Waterworks and Sewer Fund Junior Lien Bonds, Series 1999						
Total	\$ 15,285,000	Variable Rate	2024	<u>9,710,000</u>	575,000–1,095,000	2
Total				\$ <u>10,955,000</u>		

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt (continued)

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 prior to maturity on any interest payment date upon not less than ten days' notice to the Texas Small Business Industrial Development Corporation and Ameritrust Corporation, National Association, Dallas, Texas at par plus accrued interest.
3. The aggregate principal amount of the note or any unpaid principal amount may be defeased in whole or in part as of any principal due date.
4. Callable as a whole or in part, bonds maturing 2012 through 2018, on March 1, 2011, or on any interest payment date thereafter at par plus accrued interest.
5. Callable as a whole or in part, bonds maturing 2015 through 2020, on March 1, 2014, or on any interest payment date thereafter at par plus accrued interest.
6. 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.
7. 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.
8. 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.
9. 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.
10. 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.

The annual requirements to amortize debt outstanding as of September 30, 2012, including interest payments of approximately \$57,874,757, 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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt (continued)

City of Midland, Texas
Debt Service Requirements to Maturity
September 30, 2012

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			Revenue Bonds		General Obligation Bonds, Certificates of Obligation and Notes Payable			
	Principal	Interest	Total	Principal	Interest	Principal	Interest	Total	
2013	\$ 2,818,125	\$ 1,600,143	\$ 4,418,268	\$ 1,820,000	\$ 80,244	\$ 5,131,875	\$ 4,324,737	\$ 11,356,856	\$ 15,775,124
2014	2,982,154	1,253,110	4,235,264	610,000	16,874	5,662,846	3,787,676	10,077,396	14,312,660
2015	2,655,857	1,154,288	3,810,145	645,000	15,687	5,909,143	3,519,222	10,089,052	13,899,197
2016	2,659,728	1,059,042	3,718,770	685,000	14,430	6,180,272	3,244,255	10,123,957	13,842,727
2017	2,150,000	975,036	3,125,036	725,000	13,097	4,150,000	2,998,101	7,886,198	11,011,234
2018	2,230,000	891,511	3,121,511	770,000	11,683	4,335,000	2,810,851	7,927,534	11,049,045
2019	1,850,000	817,418	2,667,418	815,000	10,185	4,515,000	2,634,756	7,974,941	10,642,359
2020	1,925,000	746,791	2,671,791	865,000	8,597	4,720,000	2,430,936	8,024,533	10,696,324
2021	1,550,000	677,479	2,227,479	920,000	6,910	4,950,000	2,198,005	8,074,915	10,302,394
2022	1,615,000	614,969	2,229,969	975,000	5,118	3,080,000	2,015,018	6,075,136	8,305,105
2023	1,675,000	549,336	2,224,336	1,030,000	3,222	2,340,000	1,901,434	5,274,656	7,498,992
2024	1,750,000	478,719	2,228,719	1,095,000	1,214	2,450,000	1,795,281	5,341,495	7,570,214
2025	1,825,000	402,804	2,227,804	-	-	2,565,000	1,678,481	4,243,481	6,471,285
2026	1,900,000	327,099	2,227,099	-	-	2,685,000	1,560,656	4,245,656	6,472,755
2027	1,975,000	253,146	2,228,146	-	-	2,800,000	1,446,593	4,246,593	6,474,739
2028	1,495,000	185,596	1,680,596	-	-	2,915,000	1,327,431	4,242,431	5,923,027
2029	1,555,000	126,425	1,681,425	-	-	3,040,000	1,202,106	4,242,106	5,923,531
2030	885,000	82,722	967,722	-	-	3,175,000	1,068,991	4,243,991	5,211,713
2031	920,000	51,113	971,113	-	-	3,320,000	922,381	4,242,381	5,213,494
2032	950,000	17,219	967,219	-	-	3,475,000	767,494	4,242,494	5,209,713
2033	-	-	-	-	-	2,485,000	626,125	3,111,125	3,111,125
2034	-	-	-	-	-	2,615,000	498,625	3,113,625	3,113,625
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>\$ 37,365,864</u>	<u>\$ 12,263,966</u>	<u>\$ 49,629,830</u>	<u>\$ 10,955,000</u>	<u>\$ 187,261</u>	<u>\$ 91,164,136</u>	<u>\$ 45,423,530</u>	<u>\$ 147,729,927</u>	<u>\$ 197,359,757</u>

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 \$0.05209 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 \$436,115,354.

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, 2012.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt (continued)

The ordinances authorizing the Waterworks and Sewer System Senior Lien Revenue Bonds stipulate that the City will deposit, in addition to principal and interest requirements, certain amounts in a reserve fund until the balance of such fund is an amount not less than the average annual principal and interest requirements of all Outstanding Bonds Similarly Secured calculated (i) on a Fiscal Year Basis and (ii) as of the dated date of the last series of Bonds Similarly Secured (after giving effect to the issuance and delivery of such Bonds Similarly Secured) and after the delivery of the last series of Bonds Similarly Secured, calculated as of the first day of each Fiscal Year following the delivery of the last series of Bonds Similarly Secured. In such calculations, a fractional part of a Fiscal Year shall be treated as if it were a full Fiscal Year. The amount in the above-defined reserve fund is \$1,297,571. Amounts in the reserve fund are to be used to pay principal and interest on outstanding bonds at any time sufficient funds are not available in the bond interest and redemption fund. The ordinances also stipulate that there shall be deposited into the bond interest and redemption fund such amounts as will be sufficient to pay the next maturing principal and interest on outstanding bonds. Amounts in the reserve fund and interest and redemption fund at September 30, 2012 are adequate to meet reserve requirements and the City is in compliance with the various requirements of the bond ordinances at that date.

On May 1, 1993, the City issued \$14,300,000 of City of Midland, Texas, Waterworks and Sewer System Revenue Bonds, Series 1993 for the purpose of financing construction of improvements and extensions to the City's waterworks and sanitary sewer system and funding an amount to be held in reserve. The bonds were scheduled to mature over a 20-year period and had interest rates ranging from 5.0% to 7.0%. Annual debt service requirements on this issue (including principal and interest) ranged from \$883,975 to \$1,345,125. All issues of these bonds subsequent to the March 2003 payment of \$740,000 have been defeased by placing proceeds from the Waterworks and Sewer System Revenue Refunding Bonds, Series 2002, in an irrevocable trust to provide for all future principal and interest payments on the bonds. As of September 30, 2012, there is \$1,275,000 in aggregate principal, with an interest rate of 5.5%, of the refunded principal of these bonds outstanding.

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, 2012, there is \$2,385,000 in aggregate of the refunded principal of these bonds outstanding, with interest rates ranging from 4.75% to 4.85%.

On December 1, 1999, the City of Midland sold \$15,285,000 of Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1999 to the Texas Small Business Industrial Development

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt (continued)

Corporation for the purpose of providing \$11,860,000 of the Series 1999 Bonds in exchange for and to refund the City's outstanding \$11,860,000 Waterworks and Sewer System Junior Lien Revenue Bonds Series 1989 and to provide \$3,425,000 to be used in conjunction with other City funds to fund acquisition extensions, construction, improvements or repair of the City's water and sewer system, fully fund the Junior Lien Bond Reserve Fund, and pay costs associated with issuance of the Bonds. The Bonds mature over a 25-year period and bear a variable interest rate determined weekly equal to the "Adjustable Interest Rate" as defined in the ordinance. Summarized, the adjustable interest rate is that rate which, in the judgment of the Remarketing Agent, is the lowest interest rate that will permit the agent to sell the bonds at par plus accrued interest in the secondary market. The adjustable interest rate has a maximum rate of 15% per year over the life of the bond and no minimum rate. As defined by the ordinance, "maximum annual debt service requirements" for these bonds shall be calculated at 6% per annum for the purpose of compliance with bond covenants. Interest is payable on the first Wednesday of each month.

The \$11,860,000 Series 1999 Bonds issued to exchange and refund the outstanding \$11,860,000 Series 1989 Bonds provided for a par exchange of bonds with variable interest rates determined on the same basis for both Series 1999 and Series 1989 bonds. As a result of this exchange and refunding, the City recognized no economic gain or loss.

The ordinance authorizing the Series 1999 Bonds required that the City establish a reserve fund of \$1,528,500, which is 10% of this issue. Additionally, the ordinance authorizing the Series 1999 Bonds required that a \$5,000,000 Water and Sewer Rate Stabilization Fund be established and used for any lawful Water and Sewer System purpose to stabilize rates and charges of the System. Covenants require that, should the Rate Stabilization Fund be drawn below \$5,000,000, system net revenues be deposited in the Rate Stabilization Fund so that a balance of \$5,000,000 is attained no later than three years following the date it was first drawn below \$5,000,000. Amounts in the Reserve Fund and Rate Stabilization Fund at September 30, 2012 are adequate to meet ordinance requirements, and the City is in compliance with the various other covenants of the bond ordinance at that date.

On November 27, 2000, the City entered into a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974, as Amended, 42 U.S.C., Section 108 in the amount of \$1,045,000 for the purpose of paying costs of aiding in the establishment of an Advanced Technology Center 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. The terms of the contract require 15 annual principal payments with interest payments made semiannually. Interest payments from the date of the contract through August 9, 2001 were at a variable rate of the London Interbank Offered Rate plus 20 basis points. At August 9, 2001, Trust Certificates guaranteed by the Secretary of Housing and Urban Development were sold by the United States Department of Housing and Urban Development and interest rates on the outstanding maturities under the contract were fixed at rates ranging from 3.66% to 6.25%. Annual debt service requirements (including principal and interest) range from \$79,297 to \$109,476. All required payments made under the

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt (continued)

contract will be made using Water and Sewer Fund revenues. As of September 30, 2012, there is \$285,000 in aggregate principal of this loan outstanding.

On May 15, 2002, the City entered into a refunding transaction whereby \$10,460,000 of Waterworks and Sewer System Revenue Refunding Bonds, Series 2002, with interest rates ranging from 3.00% to 5.00%, were issued to call for redemption all outstanding Waterworks and Sewer System Revenue Bonds, Series 1993 maturities subsequent to May 1, 2003, principal amount of \$10,035,000, at the May 1, 2003 payment date, and as such, these maturities are not included in the City's basic financial statements. The difference between the reacquisition price and the net carrying amount of the old debt was \$399,272. This amount was deferred and is being amortized as a component of interest expense over the life of the refunding bonds. The refunding bonds mature over an 11-year period and have annual debt service requirements (including principal and interest) ranging from \$509,792 to \$1,307,250.

As registrar for the Series 1993 Refunded Obligations, The Bank of New York, New York, caused appropriate notation to be made so registered bond holders received proper notice of such redemption as permitted by the bond ordinances. The City placed in escrow with the J. P. Morgan Chase Bank of New York, New York, \$10,411,489, net bond proceeds of \$10,365,148 plus \$46,341 of additional City funds, to be used to purchase \$10,410,309 of U.S. Treasury Notes with principal amounts of \$10,004,000 and interest rates of 5.75%, maturing on April 30, 2003, such that the principal amount of the U.S. Treasury Notes plus interest at April 30, 2003, were sufficient to call all outstanding maturities of the Waterworks and Sewer System Revenue Bonds, Series 1993. This refunding transaction resulted in a \$448,706 savings on debt service payments with a present value savings, economic gain, of \$323,097.

On February 15, 2003, the City issued \$4,950,000 of Tax and Limited Pledge Revenue Certificates of Obligation, Series 2003 for the purpose of paying contractual obligations to be incurred for construction, improvement, and acquisition of public works and equipment for traffic signage and signalization, streets, including paving and drainage, park improvements, Midland Center Facilities improvements, downtown Midland improvements (curb and gutter construction and improvement, landscape improvements, and traffic signs and signalization), and paying for professional services rendered in relation to such projects and the financing of such projects. The bonds mature over a 15-year period and have interest rates ranging from 3.00% to 4.00%.

On February 15, 2005, the City issued \$4,950,000 of Tax and Limited Pledge Revenue Certificates of Obligation, Series 2005 for the purpose of paying contractual obligations to be incurred for construction, improvement, and acquisition of public works and equipment for public safety equipment, streets, including paving, drainage, traffic signage and signalization, park improvements, improvements to City facilities (including fire station site study and design, Martin Luther King, Jr. Community Center improvements, Doug Russell Pool Bathhouse renovations, and HVAC upgrades at City Hall) downtown Midland improvements (including Downtown Master Plan development and streetscape improvements), and paying for professional services rendered in relation to such projects and the financing of such projects. The bonds mature over a 15-year period and have interest rates ranging from 3.50% to 4.00%.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt (continued)

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. The difference between the reacquisition price and the net carrying amount of the old debt was \$461,208. This amount was deferred and is being amortized as a component of interest expense over the life of the refunding bonds, which is the same as the life of the refunded debt.

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, 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

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt (continued)

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

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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

9. Long-Term Debt (continued)

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.

10. Restricted Assets

Certain resources of the City are classified as restricted assets on the statement of net assets and balance sheet because their use is limited by applicable bond covenants or City ordinance. The "bond retirement reserve" is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The restrictions on the Water and Sewer Rate Stabilization Fund were created by the ordinance providing for the sale of the Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1999.

11. Interfund Transactions

Interfund payables, receivables and advances at September 30, 2012 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	\$ 85,448	\$ -	\$ 842,221	\$ -	\$ -	\$ -
Enterprise Fund:						
Airport Fund	-	61,779	-	-	-	-
Nonmajor Funds:						
Special Revenue Funds:						
Community Development Fund	-	23,669	-	-	-	-
Enterprise Fund:						
Golf Course Fund	-	-	-	842,221	-	1,360,932
Internal Service Fund:						
Garage Fund	-	-	-	-	1,360,932	-
Total	<u>\$ 85,448</u>	<u>\$ 85,448</u>	<u>\$ 842,221</u>	<u>\$ 842,221</u>	<u>\$ 1,360,932</u>	<u>\$ 1,360,932</u>

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

11. Interfund Transactions (continued)

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.

Interfund transfers during the year ended September 30, 2012 were as follows:

Fund/Purpose of Transfer	Transfer From	Transfer To
Major governmental funds:		
General Fund:		
Nondepartmental services	\$ -	\$ 750,000
Direct cost allocation	-	4,182,814
Sports complex support	515,103	-
Debt Service Fund:		
Section 108 loan servicing	-	107,683
Limited water and sewer revenue pledge	-	2,500
Nonmajor governmental funds:		
Special Revenue Fund:		
Hotel-Motel Fund – direct cost allocation	19,724	-
Capital Projects Fund:		
2012 General Purpose Certificates of Obligation Fund	2,000,000	
Major proprietary funds:		
Enterprise funds:		
Water and Sewer Fund:		
Nondepartmental services	750,000	-
Limited water and sewer revenue pledge	2,500	-
Direct cost allocation	1,371,654	-
Section 108 loan - debt service	107,683	-
Sanitation Fund – direct cost allocation	492,332	-
Airport Fund – direct cost allocation	1,409,574	-
Sports Complex Fund:		
Direct cost allocation	372,595	-
Sports complex support	-	515,103
Nonmajor proprietary funds:		
Golf Course Fund:		
Direct cost allocation	99,218	-
Internal Service Funds:		
Garage Fund – direct cost allocation	393,152	-
Warehouse Fund – direct cost allocation	24,565	-
Technology Fund – Initial cost.	-	2,000,000
Totals	<u>\$ 7,558,100</u>	<u>\$ 7,558,100</u>

The interfund transfers of \$515,103 to the Sports Complex Fund alleviated cash flow deficits in Fiscal Year 2012.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

12. Status of Capital Grants

In September 2011, the City accepted A.I.P. Grant No. 3-48-0150-52-11 in the amount of \$7,543,382 to be used for the payment of cost associated with two projects – the Rehabilitate Taxiway Systems with an estimated cost of \$4,396,637; and the Executive Apron Reconstruction – Area A with an estimated cost of \$3,143,745.

In July 2012, the City accepted A.I.P. Grant No. 3-48-0150-53-12 in the amount of \$2,936,924 to be used for the payment of cost associated with the Reconstruct Executive Apron Area B Project.

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 \$7.5 million in interest free forgivable loans as part of economic development agreements with the MDC for various infrastructure construction projects. The City anticipates that the terms of the agreement will be satisfied and repayment will not be required.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

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, 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 \$218,911,830, and a \$25,000 per occurrence deductible.

The City also maintains the following other insurance coverage: 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; 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; Healthcare Professional Liability Protection for the Health Department with a \$1,000,000 per occurrence, \$2,000,000 aggregate limit with a \$5,000 per occurrence deductible; Airport Liability coverage for 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 with \$5,000 deductible, and \$50,000 Fire Damage coverage; Special Events coverage with a \$1,000,000 per occurrence and \$2,000,000 annual aggregate, Personal and Advertising Injury coverage of \$1,000,000, Damage to Premises coverage of \$100,000, and Medical coverage of \$5,000 with no deductible; Medical claims stop-loss coverage for claims exceeding \$175,000 per occurrence with an annual aggregate reinsurance limit on claims in excess of \$9,122,360 and Specific Excess and Aggregate Excess Workers' Compensation coverage for claims in excess of \$450,000 per occurrence up to \$1,000,000 per occurrence, which is the statutory employer's maximum liability per occurrence.

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.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

14. Risk Management (continued)

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 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, 2011 and 2012 were:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2010-2011				
Workers' Compensation	\$ 935,493	\$ 639,481	\$ 574,788	\$ 1,000,186
Medical/Dental	576,488	7,320,662	7,256,343	640,807
General Liability	1,720,353	(171,306)	230,897	1,318,150
Total	<u>\$ 3,232,334</u>	<u>\$ 7,788,837</u>	<u>\$ 8,062,028</u>	<u>\$ 2,959,143</u>
2011-2012				
Workers' Compensation	\$ 1,000,186	\$ 709,724	\$ 599,717	\$ 1,110,193
Medical/Dental	640,807	6,886,923	6,891,443	636,287
General Liability	1,318,150	56,419	309,416	1,065,153
Total	<u>\$ 2,959,143</u>	<u>\$ 7,653,066</u>	<u>\$ 7,800,576</u>	<u>\$ 2,811,633</u>

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

15. Commitments

The City leases water rights that represent approximately 19% of the City's water sources. One of the leases renewed in August 2008, the second, smaller lease was renewed in February 2011 and both require payment at a constant five-year rate of \$0.40 per 1000 gallons. Total royalty paid amounted to \$607,911 in Fiscal Year 2012.

The City owns property that serves as a wastewater disposal site. There are approximately 6,000 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-foot 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.

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 \$795,241 to CRMWD in Fiscal Year 2012, 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, 2012.

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.

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

15. Commitments (continued)

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 \$2,493,843 to CRMWD in 2012, 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.

On February 23, 2012 the City entered into an Interlocal Agreement with the Midland County Fresh Water Supply District No. 1 (the "District") regarding T-Bar Ranch Groundwater Delivery, which provides for the construction and operation of groundwater transmission pipelines, pump stations, and other facilities required to transmit water from T-Bar Ranch to Midland. On September 26, 2012, the District issued \$63,310,000 of revenue refunding bonds with interest rates ranging from 2.00% to 5.00% and \$128,266,160 of revenue notes with interest rates ranging from 3.25% to 5.05%.

The City is obligated to pay the District a rate for the delivery of water that is sufficient to pay all cost, including costs associated with the District Debt and operations and maintenance expense as cost arise and become due. Construction of the water transmission infrastructure is in progress as of September 30, 2012 with an expected completion date of May 2013. Upon completion, the City will record the infrastructure and the associated debt as a capital lease. As of September 30, 2012 the total cost incurred to the District was \$85,512,447 and no cost has been incurred by the City.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

15. Commitments (continued)

The City has active construction projects as of September 30, 2012. Total commitments for ongoing capital projects are composed of the following:

Municipal Court	\$	1,443,003
General Facilities		2,084,008
Streets and Drainage		7,062,258
Parks and Recreation		1,188,122
Technology		2,516,054
Police		501,767
Fire		640,150
Water and Sewer		22,731,435
Sanitation		517,927
Airport		7,221,844
Sports Complex		554,984
Total Capital Projects	\$	<u>46,461,552</u>

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 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 2011 through July 2012 was 1.01%. The amount expensed for the year ended September 30, 2012 is \$782,961. The

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

17. Closure and Postclosure Care Cost (continued)

\$11,553,189 reported as landfill closure and postclosure care liability at September 30, 2012, represents the cumulative amount reported to date based on the use of 21.94% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$52,854,777 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, 2012. 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.

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

Closure Costs	\$	7,018,725
Postclosure Costs		12,702,961
Corrective Action		-
 Total	 \$	 <u><u>19,721,686</u></u>

3. The anticipated year of closure is 2053 with closure costs having been fully incurred at that time. It is anticipated that postclosure costs will be incurred evenly across the 30-year postclosure monitoring period at \$423,432 per year.

(continued)

CITY OF MIDLAND, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

18. Related Organizations

The City is responsible for appointing the members of the boards of the Midland Economic Development Corporation (MEDCO) and the Midland Housing Finance Corporation (MHFC) but the City's accountability for these organizations does not extend beyond making the appointments. For the year ended September 30, 2012, the City appropriated no funds for the use of either 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 assets 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 UnitsSignificant Accounting Policies

The SCDC and the MDC are accounted for using the economic resources measurement focus and are presented as a discretely presented component units. The SCDC and the MDC are presented 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

(continued)

CITY OF MIDLAND, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

20. Discretely Presented Component Units (continued)

Revenues and Expenses (continued)

operating expenses. The MDC expenses for fiscal year 2012 consisted of consulting and administrative expenses of \$1,415,268 and economic development expenses of \$110,000.

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 made with reserves and capital assets in the form of land, a building and improvements. The MDC's liabilities as of September 30, 2012 consist of amounts due for contractual agreements.

21. Fund Deficit

The Medical/Dental Self-Insurance Fund had an accumulated deficit of \$234,720 at September 30, 2012. This deficit will be eliminated during the fiscal year ending September 30, 2013.

(continued)

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, 2012
(Unaudited)

	Budgeted Amounts		Actual Amounts	Adjustments— Budgetary Basis	Actual on a Budgetary Basis	Variance with Final Budget — Positive (Negative)
	Original	Final				
Revenues:						
Taxes	\$ 68,406,266	\$ 68,406,266	\$ 76,802,703	\$ -	\$ 76,802,703	\$ 8,396,437
Licenses and permits	1,138,800	1,138,800	1,936,372	-	1,936,372	797,572
Fines and forfeitures	3,650,000	3,650,000	3,808,669	-	3,808,669	158,669
Charges for services	6,677,413	6,677,413	2,685,136	4,394,512	7,079,648	402,235
Rentals	8,244	8,244	11,344	-	11,344	3,100
Intergovernmental	1,051,992	1,051,992	1,442,040	-	1,442,040	390,048
Investment earnings	715,000	715,000	352,527	-	352,527	(362,473)
Contributions and donations	150,000	150,000	277,895	-	277,895	127,895
Miscellaneous	219,040	219,040	211,057	-	211,057	(7,983)
Total revenues	82,016,755	82,016,755	87,527,743	4,394,512	91,922,255	9,905,500
Expenditures:						
General government:						
Administration	1,170,519	1,230,194	1,229,487	-	1,229,487	707
Support services	12,200,032	11,989,520	11,986,500	-	11,986,500	3,020
Fiscal management	2,046,710	2,154,872	2,154,462	-	2,154,462	410
Development services	2,617,674	2,697,478	2,484,995	211,698	2,696,693	785
Engineering	9,115,094	7,701,851	7,700,839	-	7,700,839	1,012
Community services	9,738,966	10,598,856	10,597,142	-	10,597,142	1,714
Police	23,351,564	22,768,547	22,766,719	-	22,766,719	1,828
Fire	19,911,316	20,920,644	20,918,880	-	20,918,880	1,764
Other	1,802,817	2,004,450	2,004,107	-	2,004,107	343
Total expenditures	81,954,692	82,066,412	81,843,131	211,698	82,054,829	11,583
Excess (deficiency) of revenues over (under) expenditures	62,063	(49,657)	5,684,612	4,182,814	9,867,426	9,917,083
Other financing sources (uses):						
Transfers in	750,000	750,000	4,932,814	(4,182,814)	750,000	-
Transfers out	-	(515,103)	(515,103)	-	(515,103)	-
Total other financing sources (uses)	750,000	234,897	4,417,711	(4,182,814)	234,897	-
Net change in fund balances	812,063	185,240	10,102,323	-	10,102,323	9,917,083
Fund balances — beginning	48,575,197	48,575,197	48,575,197	-	48,575,197	-
Fund balances — ending	\$ 49,387,260	\$ 48,760,437	\$ 58,677,520	\$ -	\$ 58,677,520	\$ 9,917,083

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

CITY OF MIDLAND, TEXAS**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION****September 30, 2012**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 2012, there were \$111,720 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, 2012
(Unaudited)

	<u>Net Change in Fund Balances General Fund</u>
GAAP basis	\$ 10,102,323
Revenues:	
Increase due to redefining interfund charges as interfund transfers	4,394,512
Expenditures:	
Increase due to redefining interfund charges as interfund transfers	(211,698)
Other financing (uses):	
Decrease due to redefining interfund charges as interfund transfers	<u>(4,182,814)</u>
Budgetary basis	<u><u>\$ 10,102,323</u></u>

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

City of Midland, Texas
Required Supplementary Information
Schedule of Actuarial Liabilities and Funding Progress
Texas Municipal Retirement System
Last Three Calendar Years
(Unaudited)

Actuarial Valuation Date	12/31/11	Restructured (3) 12/31/10	Prior to Restructuring (3) 12/31/10	12/31/09
Actuarial Value of Assets (1)	\$ 210,714,570	\$ 199,085,018	\$ 99,661,674	\$ 97,184,684
Actuarial Accrued Liability (1)	239,826,317	232,544,622	155,654,806	154,573,465
Percentage Funded	87.86%	85.61%	64.03%	62.87%
Unfunded Actuarial Accrued Liability (UAAL)	29,111,747	33,459,604	55,993,132	57,388,781
Annual Covered Payroll (2)	34,442,094	33,898,901	33,898,901	34,288,661
UAAL as a Percentage of Covered Payroll	84.52%	98.70%	165.18%	167.37%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-	-
Annual Pension Cost (2):				
Annual Required Contribution (ARC)	7,580,704	7,600,134	7,600,134	7,306,910
Interest on NPO	-	-	-	-
Adjustment to ARC	-	-	-	-
	<u>7,580,704</u>	<u>7,600,134</u>	<u>7,600,134</u>	<u>7,306,910</u>
Contributions Made (2)	7,580,704	7,600,134	7,600,134	7,306,910
Increase in NPO	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NPO at the end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(1) Information is from appropriate year supplements to TMRS annual reports.

(2) Extracted from City of Midland annual reports.

(3) In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009).

Note: For years ending December 31, 2007 and later, the actuarial accrued liability was calculated using the Projected Unit Credit actuarial funding method.

City of Midland, Texas
Required Supplementary Information
Schedule of Actuarial Liabilities and Funding Progress
Midland Firemen's Relief and Retirement Fund
Last Three Calendar Years
(Unaudited)

Actuarial Valuation Date	12/31/11	12/31/10 (1)	12/31/09
Actuarial Value of Assets (2)	\$ 73,066,776	\$ 68,522,532	\$ 70,554,953
Actuarial Accrued Liability (2)	101,158,743	N/A	90,338,198
Percentage Funded	72.23%	N/A	78.10%
Unfunded Actuarial Accrued Liability (UAAL)	28,091,967	N/A	19,783,245
Annual Covered Payroll (2)	12,265,959	11,542,359	11,901,777
UAAL as a Percentage of Covered Payroll	229.02%	N/A	166.22%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-
Annual Pension Cost (2):			
Annual Required Contribution (ARC)	2,477,724	2,331,557	2,348,033
Interest on NPO	-	-	-
Adjustment to ARC	-	-	-
	<u>2,477,724</u>	<u>2,331,557</u>	<u>2,348,033</u>
Contributions Made (2)	2,477,724	2,331,557	2,348,033
Increase in NPO	<u>-</u>	<u>-</u>	<u>-</u>
NPO at the end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(1) Actuarial valuations were not completed as of December 31, 2010.

(2) Information is from actuarial reports prepared for the Midland Firemen's Relief and Retirement Fund. In years where an actuarial report is not prepared, the value of plan assets is extracted from the Midland Firemen's Relief and Retirement Fund audit for the appropriate year and Annual Covered Payroll and Contributions Made is extracted from the appropriate year City of Midland audit.

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

Actuarial Valuation Date	12/31/11	12/31/10 (3)	12/31/09
Actuarial Value of Assets (1)	\$ -	\$ -	\$ -
Actuarial Accrued Liability (1)	52,657,298	N/A	47,972,658
Percentage Funded	0.00%	N/A	0.00%
Unfunded Actuarial Accrued Liability (UAAL)	52,657,298	N/A	47,972,658
Annual Covered Payroll (2)	50,110,665	46,619,740	46,133,089
UAAL as a Percentage of Covered Payroll	105.08%	N/A	103.99%

(1) As of April 30, 2012, the date of the actuarial reports prepared for the City of Midland.

(2) Extracted from City of Midland annual reports.

(3) Actuarial valuation was not completed as of December 31, 2010.

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.T.D.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.



CITY OF MIDLAND, TEXAS
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2012

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	\$ 7	\$ 430,898	\$ 44,562	\$ 7,789	\$ 73,928	\$ 1,662,822	\$ 4,393,005	\$ 189,146	\$ 221,756	\$ 888,386	\$ 7,912,299
Investments	-	287,416	29,723	-	-	1,109,129	2,930,204	126,163	147,916	592,568	5,223,119
Receivables:											
Property taxes	-	-	-	-	-	353,151	-	-	-	-	353,151
Accounts receivable	943,149	-	-	-	-	-	246,730	-	-	-	1,189,879
Interest receivable	-	793	66	-	-	2,436	8,163	348	411	1,630	13,847
Intergovernmental receivable	98,027	-	-	-	-	-	-	-	-	-	98,027
Total assets	<u>\$ 1,041,183</u>	<u>\$ 719,107</u>	<u>\$ 74,351</u>	<u>\$ 7,789</u>	<u>\$ 73,928</u>	<u>\$ 3,127,538</u>	<u>\$ 7,578,102</u>	<u>\$ 315,657</u>	<u>\$ 370,083</u>	<u>\$ 1,482,584</u>	<u>\$ 14,790,322</u>
LIABILITIES											
Accounts payable	\$ 55,654	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ 79,657	\$ -	\$ -	\$ -	\$ 185,311
Retainage payable	13,975	-	-	-	-	-	-	-	-	-	13,975
Due to other funds	23,669	-	-	-	-	-	-	-	-	-	23,669
Deferred and unearned revenue	943,149	-	-	-	73,779	-	-	-	-	-	1,016,928
Other	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>1,036,447</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,779</u>	<u>50,000</u>	<u>79,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,239,883</u>
FUND BALANCES											
Restricted for:											
Public Safety	-	719,107	74,351	7,789	149	-	-	-	-	-	801,396
Court	-	-	-	-	-	-	-	315,657	370,083	-	685,740
Communications	-	-	-	-	-	-	-	-	-	-	-
Downtown	-	-	-	-	-	-	-	-	-	-	-
Buildings and renovations	-	-	-	-	-	-	2,005,989	-	-	-	2,005,989
Streets and drainage	-	-	-	-	-	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-	79,814	-	-	-	79,814
Other purposes	4,736	-	-	-	-	-	5,412,642	-	-	-	5,417,378
Committed to:											
Buildings and renovations	-	-	-	-	-	-	-	-	-	-	-
Streets and drainage	-	-	-	-	-	-	-	-	-	1,482,584	1,482,584
Other purposes	-	-	-	-	-	3,077,538	-	-	-	-	3,077,538
Total fund balances	<u>4,736</u>	<u>719,107</u>	<u>74,351</u>	<u>7,789</u>	<u>149</u>	<u>3,077,538</u>	<u>7,498,445</u>	<u>315,657</u>	<u>370,083</u>	<u>1,482,584</u>	<u>13,550,439</u>
Total liabilities and fund balances	<u>\$ 1,041,183</u>	<u>\$ 719,107</u>	<u>\$ 74,351</u>	<u>\$ 7,789</u>	<u>\$ 73,928</u>	<u>\$ 3,127,538</u>	<u>\$ 7,578,102</u>	<u>\$ 315,657</u>	<u>\$ 370,083</u>	<u>\$ 1,482,584</u>	<u>\$ 14,790,322</u>

Capital Projects Funds

Animal Shelter Facility and Equipment Fund	1998	1999	2001	2003	2005	2007	2009	2012	Total	Total Nonmajor Governmental Funds
	General Purpose Certificates of Obligation Fund									
\$ 147,295 98,248	\$ 171,816 21	\$ 7,261 57	\$ 106,302 344	\$ 427,499 695	\$ 428,496 935	\$ 728,247 3,632	\$ 6,659,472 181,545	\$ 12,140,850 553	\$ 20,817,238 286,030	\$ 28,729,537 5,509,149
-	-	-	-	-	-	-	-	-	-	353,151
274	-	-	1	2	3	-	390	1	671	1,189,879 14,518
-	-	-	-	-	-	-	-	-	-	98,027
<u>\$ 245,817</u>	<u>\$ 171,837</u>	<u>\$ 7,318</u>	<u>\$ 106,647</u>	<u>\$ 428,196</u>	<u>\$ 429,434</u>	<u>\$ 731,879</u>	<u>\$ 6,841,407</u>	<u>\$ 12,141,404</u>	<u>\$ 21,103,939</u>	<u>\$ 35,894,261</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,750	\$ -	\$ 113,860	\$ -	\$ 116,610	\$ 301,921
-	-	-	-	-	-	-	7,844	-	7,844	21,819
-	-	-	-	-	-	-	-	-	-	23,669
-	-	-	-	-	-	-	-	-	-	1,016,928
-	-	-	-	-	-	1	-	-	1	1
-	-	-	-	-	2,750	1	121,704	-	124,455	1,364,338
-	-	-	-	-	8,208	-	-	-	8,208	809,604
-	-	-	-	-	-	-	-	-	-	685,740
-	-	-	-	-	-	-	-	3,590,536	3,590,536	3,590,536
-	171,837	-	-	388,833	84,216	-	-	-	644,886	644,886
-	-	-	-	-	112,374	122,413	1,465,431	4,117,420	5,817,638	7,823,627
-	-	4,708	90,743	-	200,959	432,343	5,145,628	2,501,963	8,376,344	8,376,344
-	-	2,610	-	39,363	20,927	177,122	108,644	1,931,485	2,280,151	2,359,965
-	-	-	15,904	-	-	-	-	-	15,904	5,433,282
245,817	-	-	-	-	-	-	-	-	245,817	245,817
-	-	-	-	-	-	-	-	-	-	1,482,584
-	-	-	-	-	-	-	-	-	-	3,077,538
<u>245,817</u>	<u>171,837</u>	<u>7,318</u>	<u>106,647</u>	<u>428,196</u>	<u>426,684</u>	<u>731,878</u>	<u>6,719,703</u>	<u>12,141,404</u>	<u>20,979,484</u>	<u>34,529,923</u>
<u>\$ 245,817</u>	<u>\$ 171,837</u>	<u>\$ 7,318</u>	<u>\$ 106,647</u>	<u>\$ 428,196</u>	<u>\$ 429,434</u>	<u>\$ 731,879</u>	<u>\$ 6,841,407</u>	<u>\$ 12,141,404</u>	<u>\$ 21,103,939</u>	<u>\$ 35,894,261</u>

CITY OF MIDLAND, TEXAS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2012

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											
Ad valorem tax revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 986,238	\$ -	\$ -	\$ -	\$ -	\$ 986,238
Hotel-Motel tax revenues	-	-	-	-	-	-	4,606,037	-	-	-	4,606,037
Street improvement charge	-	-	-	-	-	-	-	-	-	459,351	459,351
Pet licenses	-	-	-	-	-	-	-	-	-	-	-
Municipal Court technology assessment	-	-	-	-	-	-	-	69,515	-	-	69,515
Municipal Court Security Fee	-	-	-	-	-	-	-	-	52,057	-	52,057
Midland Center rentals	-	-	-	-	-	-	201,618	-	-	-	201,618
Intergovernmental grants	1,091,954	18,179	-	-	23,583	-	-	-	-	-	1,133,716
Investment income:											
Interest income	11,007	3,653	351	-	82	12,621	34,782	1,682	2,021	7,187	73,386
Net increase (decrease) in the fair value of investments	-	362	41	-	-	982	3,466	167	179	712	5,909
Program income	162,915	-	-	-	-	-	-	-	-	-	162,915
Miscellaneous	-	208,318	47,581	-	-	-	-	-	-	-	255,899
Total revenues	1,265,876	230,512	47,973	-	23,665	999,841	4,845,903	71,364	54,257	467,250	8,006,641
EXPENDITURES											
Administration	131,915	-	-	-	-	-	-	-	-	-	131,915
Clearance activities	78,487	-	-	-	-	-	-	-	-	-	78,487
Community involvement	100,000	-	-	-	-	-	-	-	-	-	100,000
Housing programs	601,008	-	-	-	-	-	-	-	-	-	601,008
Economic development	-	-	-	-	-	-	1,822,380	-	-	-	1,822,380
Capital outlay	435,479	-	-	-	-	-	105,261	-	-	-	540,740
Other	-	36,358	29,307	-	23,599	51,990	88,631	36,730	-	-	266,615
Total expenditures	1,346,889	36,358	29,307	-	23,599	51,990	2,016,272	36,730	-	-	3,541,145
Excess (deficiency) of revenues over (under) expenditures	(81,013)	194,154	18,666	-	66	947,851	2,829,631	34,634	54,257	467,250	4,465,496
OTHER FINANCING SOURCES (USES)											
Issuance of long-term debt	-	-	-	-	-	-	-	-	-	-	-
Premium on debt issuance	-	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(19,724)	-	-	-	(19,724)
Total other financing sources (uses)	-	-	-	-	-	-	(19,724)	-	-	-	(19,724)
Net change in fund balances	(81,013)	194,154	18,666	-	66	947,851	2,809,907	34,634	54,257	467,250	4,445,772
Fund balances – beginning	85,749	524,953	55,685	7,789	83	2,129,687	4,688,538	281,023	315,826	1,015,334	9,104,667
Fund balances – ending	\$ 4,736	\$ 719,107	\$ 74,351	\$ 7,789	\$ 149	\$ 3,077,538	\$ 7,498,445	\$ 315,657	\$ 370,083	\$ 1,482,584	\$ 13,550,439

Capital Projects Funds										
Animal Shelter Facility and Equipment Fund	1998 General Purpose Certificates of Obligation Fund	1999 General Purpose Certificates of Obligation Fund	2001 General Purpose Certificates of Obligation Fund	2003 General Purpose Certificates of Obligation Fund	2005 General Purpose Certificates of Obligation Fund	2007 General Purpose Certificates of Obligation Fund	2009 General Purpose Certificates of Obligation Fund	2012 General Purpose Certificates of Obligation Fund	Total	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 986,238
-	-	-	-	-	-	-	-	-	-	4,606,037
-	-	-	-	-	-	-	-	-	-	459,351
23,743	-	-	-	-	-	-	-	-	23,743	23,743
-	-	-	-	-	-	-	-	-	-	69,515
-	-	-	-	-	-	-	-	-	-	52,057
-	-	-	-	-	-	-	-	-	-	201,618
-	-	-	-	-	-	-	-	-	-	1,133,716
1,511	195	9	126	496	495	722	8,728	9,531	21,813	95,199
142	-	-	-	1	(2)	(11)	6	41	177	6,086
-	-	-	-	-	-	-	-	-	-	162,915
-	-	-	-	-	-	-	-	-	-	255,899
<u>25,396</u>	<u>195</u>	<u>9</u>	<u>126</u>	<u>497</u>	<u>493</u>	<u>711</u>	<u>8,734</u>	<u>9,572</u>	<u>45,733</u>	<u>8,052,374</u>
-	-	-	-	-	-	-	-	-	-	131,915
-	-	-	-	-	-	-	-	-	-	78,487
-	-	-	-	-	-	-	-	-	-	100,000
-	-	-	-	-	-	-	-	-	-	601,008
-	-	-	-	-	-	-	-	-	-	1,822,380
49,462	-	-	-	-	4,550	246,135	243,028	70,047	613,222	1,153,962
-	-	-	-	-	-	-	-	157,813	157,813	424,428
<u>49,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,550</u>	<u>246,135</u>	<u>243,028</u>	<u>227,860</u>	<u>771,035</u>	<u>4,312,180</u>
<u>(24,066)</u>	<u>195</u>	<u>9</u>	<u>126</u>	<u>497</u>	<u>(4,057)</u>	<u>(245,424)</u>	<u>(234,294)</u>	<u>(218,288)</u>	<u>(725,302)</u>	<u>3,740,194</u>
-	-	-	-	-	-	-	-	13,589,132	13,589,132	13,589,132
-	-	-	-	-	-	-	-	770,560	770,560	770,560
-	-	-	-	-	-	-	-	(2,000,000)	(2,000,000)	(2,019,724)
-	-	-	-	-	-	-	-	12,359,692	12,359,692	12,339,968
(24,066)	195	9	126	497	(4,057)	(245,424)	(234,294)	12,141,404	11,634,390	16,080,162
<u>269,883</u>	<u>171,642</u>	<u>7,309</u>	<u>106,521</u>	<u>427,699</u>	<u>430,741</u>	<u>977,302</u>	<u>6,953,997</u>	<u>-</u>	<u>9,345,094</u>	<u>18,449,761</u>
<u>\$ 245,817</u>	<u>\$ 171,837</u>	<u>\$ 7,318</u>	<u>\$ 106,647</u>	<u>\$ 428,196</u>	<u>\$ 426,684</u>	<u>\$ 731,878</u>	<u>\$ 6,719,703</u>	<u>\$ 12,141,404</u>	<u>\$ 20,979,484</u>	<u>\$ 34,529,923</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, 2012

	<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	\$ 3,616,117	\$ 3,616,117	\$ 3,695,569	\$ 79,452
Investment earnings:				
Interest income	12,000	12,000	6,036	(5,964)
Net increase in the fair value of investments	-	-	460	460
Total revenues	<u>3,628,117</u>	<u>3,628,117</u>	<u>3,702,065</u>	<u>73,948</u>
EXPENDITURES				
Debt service:				
Principal	2,891,115	2,891,115	2,891,115	-
Interest	954,844	954,844	954,843	1
Paying agent fees	1,055	1,055	1,051	4
Total expenditures	<u>3,847,014</u>	<u>3,847,014</u>	<u>3,847,009</u>	<u>5</u>
Deficiency of revenues under expenditures	<u>(218,897)</u>	<u>(218,897)</u>	<u>(144,944)</u>	<u>73,953</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	110,184	110,184	110,183	(1)
Accrued interest on debt issuance	-	-	499	499
Total other financing sources	<u>110,184</u>	<u>110,184</u>	<u>110,682</u>	<u>498</u>
Net change in fund balances	(108,713)	(108,713)	(34,262)	74,451
Fund balances – beginning	<u>448,006</u>	<u>448,006</u>	<u>448,006</u>	<u>-</u>
Fund balances – ending	<u>\$ 339,293</u>	<u>\$ 339,293</u>	<u>\$ 413,744</u>	<u>\$ 74,451</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 Assets
September 30, 2012

	<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>
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 169,492	\$ 5,114,827	\$ 1,979,339	\$ 1,611,726	\$ 363,055	\$ 947,089	\$ 10,185,528
Investments	113,054	3,219,839	15,854	1,075,047	298,059	631,724	5,353,577
Accounts receivable	-	11,438	-	-	206,632	-	218,070
Interest receivable	265	8,337	-	3,023	415	1,747	13,787
Notes receivable	-	124,000	-	-	-	-	124,000
Inventories	245,424	352,053	-	-	-	-	597,477
Prepaid items and other assets	-	-	-	20,000	53,046	-	73,046
Total current assets	<u>528,235</u>	<u>8,830,494</u>	<u>1,995,193</u>	<u>2,709,796</u>	<u>921,207</u>	<u>1,580,560</u>	<u>16,565,485</u>
Noncurrent assets:							
Capital assets:							
Land	-	-	-	-	-	108,701	108,701
Buildings	23,804	1,788,120	-	-	-	5,000	1,816,924
Improvements other than buildings	500,000	346,955	-	-	-	-	846,955
Machinery and equipment	-	41,870,867	70,431	-	7,003	34,727	41,983,028
Intangible and Other	124,105	4,188,444	6,000	187,105	9,954	187,500	4,703,108
Construction in progress	-	-	45,250	-	-	-	45,250
Less accumulated depreciation	<u>(73,992)</u>	<u>(30,798,135)</u>	<u>(5,001)</u>	<u>(74,868)</u>	<u>(15,331)</u>	<u>(75,675)</u>	<u>(31,043,002)</u>
Total capital assets (net of accumulated depreciation)	<u>573,917</u>	<u>17,396,251</u>	<u>116,680</u>	<u>112,237</u>	<u>1,626</u>	<u>260,253</u>	<u>18,460,964</u>
Other noncurrent assets:							
Notes receivable	-	1,236,932	-	-	-	-	1,236,932
Total noncurrent assets	<u>573,917</u>	<u>18,633,183</u>	<u>116,680</u>	<u>112,237</u>	<u>1,626</u>	<u>260,253</u>	<u>19,697,896</u>
Total assets	<u>1,102,152</u>	<u>27,463,677</u>	<u>2,111,873</u>	<u>2,822,033</u>	<u>922,833</u>	<u>1,840,813</u>	<u>36,263,381</u>
LIABILITIES							
Current liabilities:							
Accounts payable	5,557	1,472,017	331	17,823	510,285	225,696	2,231,709
Accrued payroll	3,628	73,215	-	-	-	7,697	84,540
Compensated absences	8,887	62,692	-	-	-	8,458	80,037
Estimated unpaid claims	-	-	-	277,549	636,287	213,031	1,126,867
Other liabilities	-	-	-	-	921	-	921
Total current liabilities	<u>18,072</u>	<u>1,607,924</u>	<u>331</u>	<u>295,372</u>	<u>1,147,493</u>	<u>454,882</u>	<u>3,524,074</u>
Noncurrent liabilities:							
Compensated absences	16,436	31,908	-	-	-	1,984	50,328
Other postemployment benefits payable	20,210	452,868	-	8,910	10,060	50,159	542,207
Estimated unpaid claims	-	-	-	832,644	-	852,122	1,684,766
Total noncurrent liabilities	<u>36,646</u>	<u>484,776</u>	<u>-</u>	<u>841,554</u>	<u>10,060</u>	<u>904,265</u>	<u>2,277,301</u>
Total liabilities	<u>54,718</u>	<u>2,092,700</u>	<u>331</u>	<u>1,136,926</u>	<u>1,157,553</u>	<u>1,359,147</u>	<u>5,801,375</u>
NET ASSETS							
Invested in capital assets	573,917	17,396,251	2,072,942	112,237	1,626	260,253	20,417,226
Unrestricted	<u>473,517</u>	<u>7,974,726</u>	<u>38,600</u>	<u>1,572,870</u>	<u>(236,346)</u>	<u>221,413</u>	<u>10,044,780</u>
Total net assets	<u>\$ 1,047,434</u>	<u>\$ 25,370,977</u>	<u>\$ 2,111,542</u>	<u>\$ 1,685,107</u>	<u>\$ (234,720)</u>	<u>\$ 481,666</u>	<u>\$ 30,462,006</u>

CITY OF MIDLAND, TEXAS
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended September 30, 2012

	<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	\$ 890,106	\$ -	\$ -	\$ 324,980	\$ 8,672,229	\$ 585,850	\$ 10,473,165
Motor vehicle repair billings	-	4,279,898	-	-	-	-	4,279,898
Motor vehicle lease charges	-	4,676,714	-	-	-	-	4,676,714
Equipment lease-other	-	973,549	-	-	-	-	973,549
Charges for fuel	-	2,681,580	-	-	-	-	2,681,580
Employee payments	-	-	-	-	2,072,230	-	2,072,230
Total operating revenue	<u>890,106</u>	<u>12,611,741</u>	<u>-</u>	<u>324,980</u>	<u>10,744,459</u>	<u>585,850</u>	<u>25,157,136</u>
Operating expenses:							
Cost of goods sold	748,169	739,991	-	-	-	-	1,488,160
Salaries and fringe benefits	87,387	1,731,156	-	32,171	16,085	198,589	2,065,388
Contractual services	16,003	733,517	62	23,249	3,551,784	464,099	4,788,714
Maintenance of structure	-	17,440	-	-	-	-	17,440
Maintenance of equipment	-	1,462,456	12,160	-	-	-	1,474,616
Claims expense	-	-	-	709,724	6,886,923	56,419	7,653,066
Depreciation expense	50,928	3,745,790	5,001	37,447	3,163	39,032	3,881,361
Supplies	6	3,000,754	96,739	-	-	1,299	3,098,798
Other expenses	-	1,879	-	-	-	261	2,140
Total operating expenses	<u>902,493</u>	<u>11,432,983</u>	<u>113,962</u>	<u>802,591</u>	<u>10,457,955</u>	<u>759,699</u>	<u>24,469,683</u>
Operating income (loss)	<u>(12,387)</u>	<u>1,178,758</u>	<u>(113,962)</u>	<u>(477,611)</u>	<u>286,504</u>	<u>(173,849)</u>	<u>687,453</u>
Nonoperating revenue:							
Investment earnings:							
Interest income	1,473	86,395	1,520	16,946	1,622	9,625	117,581
Net increase (decrease) in the fair value of investments	147	1,891	(7)	1,351	745	731	4,858
Gain on sale of capital assets	-	111,868	-	-	-	-	111,868
Recoveries of damages to city property, net	-	25,254	-	-	-	-	25,254
Other	-	20,646	-	5,866	11,108	95,948	133,568
Total nonoperating revenue	<u>1,620</u>	<u>246,054</u>	<u>1,513</u>	<u>24,163</u>	<u>13,475</u>	<u>106,304</u>	<u>393,129</u>
Income (loss) before transfers	<u>(10,767)</u>	<u>1,424,812</u>	<u>(112,449)</u>	<u>(453,448)</u>	<u>299,979</u>	<u>(67,545)</u>	<u>1,080,582</u>
Contributions	-	-	-	-	-	-	-
Transfers in	-	-	2,000,000	-	-	-	2,000,000
Transfers out	<u>(24,565)</u>	<u>(393,152)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(417,717)</u>
Change in net assets	<u>(35,332)</u>	<u>1,031,660</u>	<u>1,887,551</u>	<u>(453,448)</u>	<u>299,979</u>	<u>(67,545)</u>	<u>2,662,865</u>
Net assets – beginning	<u>1,082,766</u>	<u>24,339,317</u>	<u>223,991</u>	<u>2,138,555</u>	<u>(534,699)</u>	<u>549,211</u>	<u>27,799,141</u>
Net assets – ending	<u>\$ 1,047,434</u>	<u>\$ 25,370,977</u>	<u>\$ 2,111,542</u>	<u>\$ 1,685,107</u>	<u>\$ (234,720)</u>	<u>\$ 481,666</u>	<u>\$ 30,462,006</u>

CITY OF MIDLAND, TEXAS
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended September 30, 2012

	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	\$ -	\$ 49,855	\$ -	\$ 5,866	\$ 1,903,574	\$ -	\$ 1,959,295
Interfund services provided	890,106	12,611,741	-	324,980	8,672,229	681,798	23,180,854
Payments to suppliers	(838,698)	(5,247,298)	(148,558)	(609,981)	(10,591,634)	(560,897)	(17,997,066)
Payments to employees	(70,797)	(1,650,171)	-	(30,104)	(15,052)	(186,285)	(1,952,409)
Net cash provided (used) by operating activities	<u>(19,389)</u>	<u>5,764,127</u>	<u>(148,558)</u>	<u>(309,239)</u>	<u>(30,883)</u>	<u>(65,384)</u>	<u>5,190,674</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in from other funds	-	-	2,000,000	-	-	-	2,000,000
Transfers out to other funds	(24,565)	(393,152)	-	-	-	-	(417,717)
Net cash provided (used) by noncapital financing activities	<u>(24,565)</u>	<u>(393,152)</u>	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,582,283</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Purchases of capital assets	-	(3,734,456)	(115,681)	-	-	-	(3,850,137)
Repayment of loans to other funds	-	120,442	-	-	-	-	120,442
Proceeds from sale of capital assets	-	124,821	-	-	-	-	124,821
Net cash used by capital and related financing activities	<u>-</u>	<u>(3,489,193)</u>	<u>(115,681)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,604,874)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchases of investments	(113,054)	(3,219,839)	(15,854)	(1,075,047)	(298,059)	(631,724)	(5,353,577)
Proceeds from sales and maturities of investments	132,425	2,595,823	105,200	1,213,868	281,174	666,143	4,994,633
Interest received	1,832	88,669	1,513	19,956	2,640	11,005	125,615
Net cash provided (used) by investing activities	<u>21,203</u>	<u>(535,347)</u>	<u>90,859</u>	<u>158,777</u>	<u>(14,245)</u>	<u>45,424</u>	<u>(233,329)</u>
Net increase (decrease) in cash and cash equivalents	(22,751)	1,346,435	1,826,620	(150,462)	(45,128)	(19,960)	2,934,754
Cash and cash equivalents at beginning of year	192,243	3,768,392	152,719	1,762,188	408,183	967,049	7,250,774
Cash and cash equivalents at end of year	<u>\$ 169,492</u>	<u>\$ 5,114,827</u>	<u>\$ 1,979,339</u>	<u>\$ 1,611,726</u>	<u>\$ 363,055</u>	<u>\$ 947,089</u>	<u>\$ 10,185,528</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss):	\$ (12,387)	\$ 1,178,758	\$ (113,962)	\$ (477,611)	\$ 286,504	\$ (173,849)	\$ 687,453
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	50,928	3,745,790	5,001	37,447	3,163	39,032	3,881,361
Other income	-	45,900	-	5,866	11,108	95,948	158,822
(Increase) decrease in accounts receivable	-	3,955	-	-	(179,764)	-	(175,809)
(Increase) decrease in inventory	8,906	(37,196)	-	-	-	-	(28,290)
Increase in prepaid items	-	-	-	-	(53,046)	-	(53,046)
Increase (decrease) in accounts payable	(83,426)	745,935	(39,597)	12,985	(95,560)	214,178	754,515
Increase (decrease) in accrued payroll	95	308	-	-	-	(24)	379
Increase (decrease) in estimated unpaid claims	-	-	-	110,007	(4,520)	(252,997)	(147,510)
Increase (decrease) in compensated absences	10,882	(30,517)	-	-	-	(427)	(20,062)
Increase in other postemployment benefits	5,613	111,194	-	2,067	1,033	12,755	132,662
Increase in other liabilities	-	-	-	-	199	-	199
Total adjustments	<u>(7,002)</u>	<u>4,585,369</u>	<u>(34,596)</u>	<u>168,372</u>	<u>(317,387)</u>	<u>108,465</u>	<u>4,503,221</u>
Net cash provided (used) by operating activities	<u>\$ (19,389)</u>	<u>\$ 5,764,127</u>	<u>\$ (148,558)</u>	<u>\$ (309,239)</u>	<u>\$ (30,883)</u>	<u>\$ (65,384)</u>	<u>\$ 5,190,674</u>
Noncash Investing, Capital and Financing Activities:							
Change in fair value of investments	\$ 147	\$ 1,891	\$ (7)	\$ 1,351	\$ 745	\$ 731	\$ 4,858

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.

CONTENTS

	Page
Financial Trends	109
<p>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</p>	
Revenue Capacity	114
<p>These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.</p>	
Debt Capacity	122
<p>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.</p>	
Demographic and Economic Information	127
<p>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</p>	
Operating Information	129
<p>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.</p>	

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 Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities										
Invested in capital assets, net of related debt	\$ 38,542,651	\$ 39,547,580	\$ 41,993,822	\$ 47,625,042	\$ 53,378,805	\$ 62,688,027	\$ 70,220,858	\$ 74,338,808	\$ 77,139,942	\$ 79,950,737
Restricted	44,877	168,149	118,651	255,331	34,810	156,130	20,367	326,991	6,518,425	9,227,239
Unrestricted	30,412,325	33,791,542	36,840,714	45,834,804	52,877,175	57,985,984	52,799,760	45,035,305	45,315,926	53,230,626
Total governmental activities net assets	<u>\$ 68,999,853</u>	<u>\$ 73,507,271</u>	<u>\$ 78,953,187</u>	<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>
Business-type activities										
Invested in capital assets, net of related debt	\$ 113,409,800	\$ 119,949,907	\$ 130,705,342	\$ 138,474,174	\$ 146,453,011	\$ 149,714,918	\$ 166,637,943	\$ 169,294,026	\$ 178,169,630	\$ 189,427,031
Restricted	8,216,615	8,195,706	8,195,706	8,195,706	7,826,071	7,826,071	7,826,071	7,826,071	11,615,537	12,228,596
Unrestricted	51,170,413	48,488,356	48,130,545	52,601,112	60,855,833	75,370,522	75,294,643	81,828,896	82,368,737	84,149,910
Total business-type activities net assets	<u>\$ 172,796,828</u>	<u>\$ 176,633,969</u>	<u>\$ 187,031,593</u>	<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>
Primary government										
Invested in capital assets, net of related debt	\$ 151,952,451	\$ 159,497,487	\$ 172,699,164	\$ 186,099,216	\$ 199,831,816	\$ 212,402,945	\$ 236,858,801	\$ 243,632,834	\$ 255,309,572	\$ 269,377,768
Restricted	8,261,492	8,363,855	8,314,357	8,451,037	7,860,881	7,982,201	7,846,438	8,153,062	18,133,962	21,455,835
Unrestricted	81,582,738	82,279,898	84,971,259	98,435,916	113,733,008	133,356,506	128,094,403	126,864,201	127,684,663	137,380,536
Total primary government net assets	<u>\$ 241,796,681</u>	<u>\$ 250,141,240</u>	<u>\$ 265,984,780</u>	<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>

(Unaudited-See Accompanying Independent Auditors' Report)

Table 2

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Expenses										
Governmental activities:										
General government	\$ 9,825,012	\$ 9,852,827	\$ 10,614,765	\$ 11,120,377	\$ 15,915,793	\$ 16,426,985	\$ 18,834,377	\$ 18,971,123	\$ 20,939,401	\$ 20,515,015
Development services	9,700,172	8,806,275	8,730,237	9,200,295	11,318,654	11,221,695	13,479,488	14,369,010	13,837,291	3,534,375
Engineering	-	-	-	-	-	-	-	-	-	10,642,676
Community services	6,722,669	6,611,580	6,791,555	7,228,250	7,963,767	9,200,826	9,739,208	10,084,652	10,137,221	9,933,581
Police	15,015,699	15,180,842	15,422,161	16,296,584	17,502,258	18,937,778	21,965,119	23,156,588	23,312,992	24,025,334
Fire	12,695,274	13,013,865	13,098,191	13,475,104	15,131,600	16,391,606	19,342,454	20,137,685	20,863,640	22,289,161
Other	4,692,589	4,171,108	4,083,732	4,376,474	-	-	-	-	-	-
Interest on long-term debt	1,045,023	971,925	991,790	995,050	1,071,259	1,085,505	1,152,879	1,103,073	1,028,942	1,221,970
Total governmental activities expenses	<u>59,696,438</u>	<u>58,608,422</u>	<u>59,732,431</u>	<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>
Business-type activities:										
Airport	6,842,549	6,684,861	7,008,505	6,912,437	7,541,223	8,047,073	8,690,847	9,201,993	9,295,323	8,835,469
Water and sewer	27,428,950	27,540,899	28,883,107	29,984,197	31,282,624	34,615,012	32,828,147	33,642,297	37,130,696	37,401,624
Sanitation	5,468,311	5,314,761	5,071,081	6,988,197	7,299,073	9,115,773	10,129,743	8,450,443	10,489,726	10,813,252
Sports complex	5,574,237	4,650,685	4,616,902	3,603,742	4,319,956	4,276,725	4,404,185	4,337,123	4,382,696	4,242,836
Golf course	1,339,880	1,097,870	1,163,787	1,448,110	1,502,814	1,478,505	1,903,417	1,923,190	1,910,254	2,056,066
Total business-type activities expenses	<u>46,653,927</u>	<u>45,289,076</u>	<u>46,743,382</u>	<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>
Total primary government expenses	<u>\$ 106,350,365</u>	<u>\$ 103,897,498</u>	<u>\$ 106,475,813</u>	<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>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 787,438	\$ 836,248	\$ 815,161	\$ 736,932	\$ 781,719	\$ 527,757	\$ 447,368	\$ 596,304	\$ 536,478	\$ 620,524
Development services	857,541	858,130	1,120,819	1,263,840	1,492,539	1,378,365	948,114	818,445	1,781,309	1,998,231
Engineering	-	-	-	-	-	-	-	-	-	1,963
Community services	874,671	908,581	919,699	1,090,698	1,075,048	1,001,491	929,448	923,658	875,790	898,904
Police	2,007,002	3,135,333	2,816,797	2,641,553	3,045,172	3,741,616	4,035,131	2,393,857	4,105,681	4,272,412
Fire	1,118,367	1,378,829	929,250	1,179,917	1,329,561	1,974,577	1,775,129	1,838,814	1,767,777	2,034,214
Operating grants and contributions	2,334,184	1,625,602	1,279,426	2,782,305	1,619,363	1,504,100	2,134,574	2,551,762	1,689,509	1,455,109
Capital grants and contributions	341,975	2,470,006	2,200,278	3,036,995	4,408,946	7,295,001	4,661,290	2,996,562	4,603,959	3,725,173
Total governmental activities program revenues	<u>8,321,178</u>	<u>11,212,729</u>	<u>10,081,430</u>	<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>
Business-type activities:										
Charges for services:										
Airport	5,903,111	6,835,372	6,923,314	7,456,268	8,139,157	8,663,825	7,549,954	7,572,534	8,017,966	8,816,871
Water and sewer	28,799,731	27,764,094	30,841,175	34,648,349	37,812,622	44,267,408	41,138,165	40,370,745	44,728,124	41,236,729
Sanitation	5,553,450	5,761,502	6,320,995	6,598,321	7,465,121	7,906,457	8,504,251	8,982,565	10,679,562	11,636,597
Sports complex	3,987,854	4,129,763	4,624,481	5,646,149	6,505,378	7,278,806	6,565,148	6,541,457	8,360,882	9,781,813
Golf course	1,215,469	1,196,293	1,102,694	1,248,394	1,364,233	1,491,119	1,905,706	1,822,464	2,061,100	2,348,194
Operating grants and contributions	427,409	431,238	509,106	470,160	441,440	362,610	353,931	454,463	353,020	382,984
Capital grants and contributions	2,751,166	5,621,328	9,208,150	6,381,973	6,447,085	3,640,719	10,518,716	3,643,920	5,383,946	6,324,973
Total business-type activities program revenues	<u>48,638,190</u>	<u>51,739,590</u>	<u>59,529,915</u>	<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>
Total primary government program revenues	<u>\$ 56,959,368</u>	<u>\$ 62,952,319</u>	<u>\$ 69,611,345</u>	<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>
Net (Expense)/Revenue										
Governmental Activities	\$ (51,375,260)	\$ (47,395,693)	\$ (49,651,001)	\$ (49,959,894)	\$ (55,150,983)	\$ (55,841,488)	\$ (69,582,471)	\$ (75,702,729)	\$ (74,758,984)	\$ (77,155,582)
Business-type Activities	1,984,263	6,450,514	12,786,533	13,512,931	16,229,346	16,077,856	18,579,532	11,833,102	16,375,905	17,178,914
Total primary government net expense	<u>\$ (49,390,997)</u>	<u>\$ (40,945,179)</u>	<u>\$ (36,864,468)</u>	<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>

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes										
Property taxes	\$ 22,022,007	\$ 22,958,149	\$ 24,012,478	\$ 25,661,748	\$ 26,419,543	\$ 28,207,188	\$ 29,537,787	\$ 30,381,016	\$ 32,697,674	\$ 34,238,579
Sales taxes	13,338,936	14,396,348	16,113,027	19,584,476	22,536,098	25,776,037	23,848,005	23,563,357	30,281,637	35,472,615
Gross receipts taxes	8,378,311	8,554,622	8,942,639	11,841,005	9,905,964	11,082,067	10,507,602	10,640,157	11,232,925	11,210,488
Hotel-motel taxes	1,098,368	1,136,690	1,238,269	1,461,956	1,959,523	2,459,814	2,657,283	2,165,861	3,085,061	4,606,037
Other taxes	217,281	234,659	257,005	292,034	345,348	403,169	441,148	415,279	486,648	493,405
Unrestricted investment earnings	984,777	822,442	894,436	1,994,197	2,951,752	1,894,550	1,339,474	1,113,797	782,769	431,732
Gain on sale of capital assets	-	-	-	219,186	-	-	-	-	-	-
Miscellaneous	442	20,549	70,499	11,620	25,941	40,819	93,921	45,720	1,077,093	22,017
Transfers	2,952,144	3,779,652	3,568,564	3,655,662	3,582,427	517,195	3,368,095	4,037,661	4,388,366	4,115,018
Total governmental activities	<u>48,992,266</u>	<u>51,903,111</u>	<u>55,096,917</u>	<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>
Business-type activities:										
Investment earnings	1,731,925	1,166,279	1,179,655	2,382,130	3,217,004	2,215,935	1,635,709	1,394,895	1,217,372	587,737
Transfers	(2,952,144)	(3,779,652)	(3,568,564)	(3,655,662)	(3,582,427)	(517,195)	(3,368,095)	(4,037,661)	(4,388,366)	(4,115,018)
Total business-type activities	<u>(1,220,219)</u>	<u>(2,613,373)</u>	<u>(2,388,909)</u>	<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>
Total primary government	<u>\$ 47,772,047</u>	<u>\$ 49,289,738</u>	<u>\$ 52,708,008</u>	<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>

Changes in Net Assets

Governmental Activities	\$ (2,382,994)	\$ 4,507,418	\$ 5,445,916	\$ 14,761,990	\$ 12,575,613	\$ 14,539,351	\$ 2,210,844	\$ (3,339,881)	\$ 9,273,189	\$ 13,434,309
Business-type Activities	764,044	3,837,141	10,397,624	12,239,399	15,863,923	17,776,596	16,847,146	9,190,336	13,204,911	13,651,633
Total primary government	<u>\$ (1,618,950)</u>	<u>\$ 8,344,559</u>	<u>\$ 15,843,540</u>	<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>

(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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 878,796	\$ 881,945
Reserved	1,924,700	1,985,752	2,327,253	3,143,510	5,060,354	5,601,854	12,232,616	8,966,970	-	-
Unreserved	15,261,985	16,330,749	17,542,860	25,409,316	29,812,023	32,460,043	27,502,467	29,106,932	-	-
Restricted	-	-	-	-	-	-	-	-	195,668	210,897
Committed	-	-	-	-	-	-	-	-	7,728,867	8,486,918
Assigned	-	-	-	-	-	-	-	-	67,166	73,228
Unassigned	-	-	-	-	-	-	-	-	39,704,700	49,024,532
Total general fund	<u>\$ 17,186,685</u>	<u>\$ 18,316,501</u>	<u>\$ 19,870,113</u>	<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>
All Other Governmental Funds										
Reserved	\$ 2,334,817	\$ 2,624,518	\$ 3,630,166	\$ 3,877,898	\$ 7,590,172	\$ 3,176,012	\$ 4,392,945	\$ 6,888,698	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	1,370,695	1,832,380	2,113,539	1,245,470	2,420,879	3,929,760	4,394,896	5,952,978	-	-
Capital projects funds	6,062,180	4,771,649	7,272,992	2,367,582	3,493,158	2,319,159	6,937,027	4,756,115	-	-
Restricted for:										
Debt service	-	-	-	-	-	-	-	-	448,006	413,744
Public safety	-	-	-	-	-	-	-	-	596,708	809,604
Court	-	-	-	-	-	-	-	-	596,849	685,740
Communications	-	-	-	-	-	-	-	-	-	3,590,536
Downtown	-	-	-	-	-	-	-	-	644,144	644,886
Building renovations	-	-	-	-	-	-	-	-	1,771,388	7,823,627
Streets and drainage	-	-	-	-	-	-	-	-	6,083,529	8,376,344
Parks and recreation	-	-	-	-	-	-	-	-	525,786	2,359,965
Other capital projects	-	-	-	-	-	-	-	-	42,166	-
Other purposes	-	-	-	-	-	-	-	-	4,774,287	5,433,282
Committed to:										
Building renovations	-	-	-	-	-	-	-	-	269,883	245,817
Streets and drainage	-	-	-	-	-	-	-	-	1,015,334	1,482,584
Other purposes	-	-	-	-	-	-	-	-	2,129,687	3,077,538
Total all other governmental funds	<u>\$ 9,767,692</u>	<u>\$ 9,228,547</u>	<u>\$ 13,016,697</u>	<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>

(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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues										
Taxes	\$ 45,067,234	\$ 47,354,745	\$ 50,511,124	\$ 58,902,891	\$ 61,060,586	\$ 68,058,393	\$ 67,107,946	\$ 67,077,164	\$ 77,835,427	\$ 86,090,547
Licenses and permits	895,208	988,003	1,020,416	1,170,553	1,349,074	1,461,320	1,124,144	1,187,504	1,991,056	2,419,466
Fines and forfeitures	2,173,560	2,248,896	2,283,272	2,425,291	2,667,017	3,166,584	3,134,799	3,276,328	3,648,203	3,808,669
Charges for services	2,181,511	2,410,693	1,943,476	2,093,062	2,239,596	2,289,241	2,553,851	2,356,353	2,311,691	2,685,136
Rentals	206,780	214,848	201,274	220,312	214,059	220,283	198,555	211,115	203,293	212,962
Assessments	91,028	97,278	99,270	121,816	109,589	120,613	115,544	116,859	117,117	121,572
Intergovernmental	2,361,702	1,876,985	1,927,026	3,357,245	2,061,721	1,934,972	4,537,251	4,061,605	2,833,751	2,575,756
Investment earnings	697,678	600,425	828,198	1,699,793	2,513,712	1,631,545	1,109,384	974,529	792,232	460,308
Contributions and donations	-	434,356	234,304	865,966	259,596	205,805	612,493	161,187	1,264,310	277,895
Miscellaneous	548,126	521,181	515,864	450,332	633,704	473,926	674,347	725,415	1,782,060	629,871
Total revenues	<u>54,222,827</u>	<u>56,747,410</u>	<u>59,564,224</u>	<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>
Expenditures										
General government	9,638,003	9,811,679	10,705,471	11,222,344	12,170,359	12,213,221	14,083,339	14,314,539	14,797,484	15,370,449
Development services	7,467,590	6,945,427	7,115,914	8,017,698	8,295,919	9,410,143	11,692,087	11,090,190	10,639,275	2,484,995
Engineering	-	-	-	-	-	-	-	-	-	7,700,839
Community services	6,120,339	6,033,278	6,591,145	7,211,703	7,246,431	8,595,533	9,037,633	9,783,237	9,591,163	10,597,142
Police	14,637,524	15,237,947	15,692,926	16,361,191	17,505,378	19,210,537	20,668,423	21,044,525	21,393,542	22,766,719
Fire	12,635,389	13,121,068	13,627,472	13,668,119	15,348,015	16,466,900	18,337,470	18,203,854	18,782,600	20,918,880
Other	4,508,411	4,487,683	4,367,939	4,638,911	4,515,769	4,936,332	5,446,695	5,517,045	4,486,670	5,004,512
Capital outlay	2,093,678	1,485,800	1,765,279	7,717,921	2,965,213	6,336,797	5,806,226	433,004	1,810,455	1,153,962
Debt services:										
Principal	2,054,023	2,060,961	2,227,787	2,484,724	2,691,551	2,808,488	2,274,389	2,530,065	2,812,808	2,891,115
Interest	961,812	1,043,591	886,932	1,074,354	876,390	1,282,233	887,869	1,325,357	1,040,860	954,843
Debt issuance costs	20,476	-	93,138	-	83,852	-	153,789	-	-	157,813
Refunding bond issuance costs and escrow	-	-	-	-	-	-	207,720	-	-	-
Paying agents' fees	4,020	2,797	3,070	3,081	3,081	3,143	2,481	1,051	1,051	1,051
Total expenditures	<u>60,141,265</u>	<u>60,230,231</u>	<u>63,077,073</u>	<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>
Excess of revenues over (under) expenditures	(5,918,438)	(3,482,821)	(3,512,849)	(1,092,785)	1,406,696	(1,700,645)	(7,429,807)	(4,094,808)	7,423,232	9,279,862
Other Financing Sources (Uses)										
Sale of capital assets	-	-	-	323,475	168,000	-	-	-	-	-
Refunding bonds issued	2,485,000	-	-	-	-	-	7,708,926	-	-	-
Issuance of long-term debt	4,950,000	-	4,950,000	-	6,910,000	-	9,850,132	-	-	13,589,132
Payment to refunded bond escrow agent	(2,445,000)	-	-	-	-	-	(7,638,159)	-	-	-
Premium on debt issuance	-	-	45,950	-	181,709	-	281,634	-	-	770,560
Accrued interest on debt issuance	-	-	21,989	-	32,093	-	47,160	-	-	499
Transfers in	3,196,701	4,207,723	4,046,110	4,343,644	4,377,586	4,423,913	6,111,466	4,778,476	5,055,682	5,042,997
Transfers out	(184,474)	(134,231)	(209,438)	(417,368)	(743,274)	(3,613,026)	(958,229)	(471,926)	(677,643)	(2,534,827)
Total other financing sources (uses)	<u>8,002,227</u>	<u>4,073,492</u>	<u>8,854,611</u>	<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>
Net change in fund balances	<u>\$ 2,083,789</u>	<u>\$ 590,671</u>	<u>\$ 5,341,762</u>	<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>
Debt service as a percentage of noncapital expenditures	5.2%	5.3%	5.2%	5.7%	5.3%	5.6%	4.0%	4.8%	4.8%	4.5%

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

<u>Fiscal Year</u>	<u>Ad Valorem Tax</u>	<u>City Sales Tax</u>	<u>Gross Receipts Tax</u>	<u>Mixed Beverage Tax</u>	<u>Hotel Motel Tax</u>	<u>Miscellaneous</u>	<u>Totals</u>
2003	\$ 22,034,338	\$ 13,338,936	\$ 8,378,311	\$ 171,732	\$ 1,098,368	\$ 45,549	\$ 45,067,234
2004	23,032,425	14,396,348	8,554,623	185,001	1,136,690	49,658	47,354,745
2005	23,960,184	16,113,027	8,942,639	199,725	1,238,269	57,280	50,511,124
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
Change 2003-2012	55.7%	165.9%	33.8%	123.5%	319.4%	140.4%	91.0%

(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
2003	\$ 3,147,530	\$ 557,850	\$ 12,230	\$ 335,479	\$ 3,382,131	\$ 0.6464
2004	3,285,374	561,123	12,808	343,428	3,515,877	0.6464
2005	3,449,861	580,053	15,953	344,824	3,701,043	0.6424
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	0.4729
2012	6,844,436	806,228	47,912	603,653	7,094,923	0.4705

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.

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
2003	\$ 0.5606	\$ 0.0858	\$ 0.6464	\$ 1.6050	\$ 0.1906	\$ 0.2637	\$ 0.1412
2004	0.5611	0.0853	0.6464	1.6269	0.1906	0.2939	0.1499
2005	0.5604	0.0820	0.6424	1.6425	0.1906	0.2939	0.1715
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	0.4172	0.0557	0.4729	1.1451	0.1699	0.2118	0.1663
2012	0.4185	0.0521	0.4705	1.1411	0.1679	0.1982	0.1622

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.

Table 8

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

Fiscal Year 2012			Fiscal Year 2003		
Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
TRA Midland Properties LLC	\$ 66,019,670	0.93%	Southwestern Bell Telephone	\$ 45,251,260	1.34%
TXU Electric Delivery Co	45,149,210	0.64%	ONCOR Electric Delivery Co.	40,592,260	1.20%
Wal-Mart Properties	40,153,730	0.57%	Simon Property Group	24,571,280	0.73%
Midland Park Mall, LP	37,589,240	0.53%	Cumming Baccus Midland LP	16,425,000	0.49%
Southwestern Bell Telephone	33,437,230	0.47%	Cox Communications	12,809,080	0.38%
Artificial Lift Division of STC	24,741,240	0.35%	MRO Southwest, Inc.	12,802,010	0.38%
Claydesta Center Lp et Al	22,743,720	0.32%	Claydesta Building LP	11,978,500	0.35%
JM Cox Resources LP	18,262,550	0.26%	W B Summit Properties Inc	10,955,700	0.32%
Midland FC LTD	17,016,980	0.24%	Pure Resources	9,465,920	0.28%
Wireline Division of STC	15,687,520	0.22%	Energas	9,319,320	0.28%
Total	\$ 320,801,090	4.52%	Total	\$ 194,170,330	5.74%

Source: Midland Central Appraisal District

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
2003	\$ 21,862,087	\$ (31,030)	\$ 21,831,057	\$ 21,385,082	97.96%	\$ 423,878	\$ 21,808,960	99.90%
2004	22,726,390	(3,711)	22,722,679	22,320,900	98.23%	378,148	22,699,047	99.90%
2005	23,775,520	(47,056)	23,728,464	23,288,426	98.15%	410,213	23,698,639	99.87%
2006	25,343,526	(46,893)	25,296,633	24,907,178	98.46%	363,667	25,270,845	99.90%
2007	25,992,405	(138,286)	25,854,120	25,457,058	98.46%	363,606	25,820,665	99.87%
2008	27,889,113	(218,159)	27,670,954	27,287,802	98.62%	346,579	27,634,381	99.87%
2009	29,198,318	(127,435)	29,070,883	28,644,131	98.53%	386,012	29,030,143	99.86%
2010	29,754,496	(90,545)	29,663,952	29,260,114	98.64%	338,169	29,598,282	99.78%
2011	31,949,398	(61,046)	31,888,352	31,522,686	98.85%	238,584	31,761,269	99.60%
2012	33,384,453	33,163	33,417,616	33,021,270	98.81%	-	33,021,270	98.81%

Source: Midland Central Appraisal District

(Unaudited-See Accompanying Independent Auditors' Report)

Table 10

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Agriculture, Forestry, Fishing, Hunting	\$ -	\$ 5	\$ 4	\$ 61	\$ 42	\$ 6	\$ 9	\$ 2	\$ 1	\$ 3
Mining	83,534	84,674	120,800	116,080	139,760	157,197	183,665	131,288	259,423	468,320
Utilities	3,609	6,111	3,589	1,280	1,357	1,701	4,128	1,614	1,109	12
Construction	23,372	26,753	34,640	41,189	48,495	60,430	65,047	54,739	69,073	90,610
Manufacturing	16,748	30,835	41,970	39,072	43,380	49,102	54,214	46,183	53,011	71,407
Wholesale Trade	46,170	53,399	69,311	99,366	120,684	195,254	403,058	163,054	240,314	327,609
Retail Trade	625,168	686,588	777,440	906,881	966,680	999,585	1,043,751	984,145	1,060,820	1,249,127
Transportation, Warehousing	1,563	2,014	1,326	1,413	3,157	4,394	5,158	5,645	10,210	17,847
Information	38,692	36,962	37,696	41,354	43,985	42,621	43,895	41,168	43,214	49,424
Finance, Insurance	2,406	2,570	2,456	2,461	3,142	3,848	5,265	8,570	3,843	3,978
Real Estate, Rental, Leasing	14,762	19,220	20,631	17,134	22,071	31,128	46,016	28,232	37,188	64,100
Professional, Scientific, Technical Svc	33,004	28,029	38,157	48,672	64,733	78,849	69,681	41,756	73,569	86,885
Management of Companies, Enterprises	-	-	6,146	6,114	4,586	-	-	-	-	1
Admin, Support, Waste Mgmt, Remed	26,636	40,582	47,333	35,324	33,316	34,491	37,813	38,487	37,205	41,560
Educational Services	466	330	469	429	448	592	537	637	646	601
Health Care, Social Assistance	670	771	704	748	995	1,037	1,957	2,075	2,220	2,875
Arts, Entertainment, Recreation	10,322	10,496	12,936	13,038	13,653	21,648	25,214	23,935	24,042	26,962
Accommodation, Food Services	131,498	134,267	141,467	156,470	177,495	191,076	213,062	207,058	222,912	257,748
Other Services	27,753	29,186	31,505	36,107	41,859	45,827	49,190	43,962	48,100	59,119
Public Administration	1,135	1,112	1,177	1,289	2,916	6,409	1,467	1,593	1,846	1,976
Other	37,889	1,790	599	327	3	-	-	10,522	-	-
Total	\$ 1,125,397	\$ 1,195,694	\$ 1,390,356	\$ 1,564,809	\$ 1,732,757	\$ 1,925,195	\$ 2,253,127	\$ 1,834,665	\$ 2,188,746	\$ 2,820,164
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
2003	1.00%	0.50%	0.25%	0.25%
2004	1.00%	0.50%	0.25%	0.25%
2005	1.00%	0.50%	0.25%	0.25%
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%

(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)

	2011				2002			
	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total
Agriculture, Forestry, Fishing, Hunting	5	0.10 %	\$ -	- %	5	0.12 %	\$ -	- %
Mining	256	5.16	4,683	16.61	123	2.88	835	7.43
Utilities	4	0.08	-	-	10	0.23	36	0.32
Construction	391	7.88	906	3.21	270	6.32	233	2.07
Manufacturing	275	5.54	714	2.53	131	3.07	167	1.49
Wholesale Trade	271	5.46	3,276	11.62	226	5.29	461	4.10
Retail Trade	1,706	34.37	12,491	44.30	1,677	39.26	6,251	55.59
Transportation, Warehousing	44	0.89	178	0.63	20	0.47	15	0.13
Information	72	1.45	494	1.75	108	2.53	386	3.43
Finance, Insurance	42	0.85	39	0.14	32	0.75	24	0.21
Real Estate, Rental, Leasing	164	3.30	641	2.27	75	1.76	147	1.31
Professional, Scientific, Technical Svc	339	6.83	868	3.08	266	6.23	330	2.93
Management of Companies, Enterprises	4	0.08	-	-	2	0.05	-	-
Admin, Support, Waste Mgmt, Remed	263	5.30	415	1.47	250	5.85	266	2.37
Educational Services	62	1.25	6	0.02	49	1.15	4	0.04
Health Care, Social Assistance	44	0.89	28	0.10	31	0.73	6	0.05
Arts, Entertainment, Recreation	120	2.42	269	0.95	56	1.31	103	0.92
Accommodation, Food Services	405	8.16	2,577	9.14	315	7.38	1,314	11.69
Other Services	455	9.17	591	2.10	375	8.78	277	2.46
Public Administration	4	0.08	19	0.07	4	0.09	11	0.10
Nonclassifiable	-	-	-	-	-	-	-	-
Other	38	0.77	-	-	246	5.76	378	3.36
Total	4,964	100.00 %	\$ 28,195	100.00 %	4,271	100.00 %	\$ 11,244	100.00 %

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				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			
2003	\$ 4,505,000	\$ 19,366,985	\$ 900,000	\$ 31,005,000	\$ -	\$ 54,463,015	\$ -	\$ 110,240,000	2.89%	\$ 936
2004	3,640,000	18,226,024	845,000	29,265,000	-	52,878,976	55,100	104,910,100	2.60%	886
2005	2,770,000	21,873,237	790,000	27,455,000	-	51,206,763	51,950	104,146,950	2.28%	834
2006	1,860,000	20,358,513	730,000	25,575,000	42,130,000	5,786,487	47,650	96,487,650	1.86%	743
2007	935,000	25,566,962	665,000	18,810,000	40,220,000	58,043,038	43,900	144,283,900	2.38%	1,077
2008	-	23,763,474	595,000	17,385,000	38,240,000	56,751,526	39,850	136,774,850	2.08%	1,086
2009	7,609,852	23,875,000	525,000	15,895,000	36,635,148	54,110,000	35,400	138,685,400	1.80%	1,037
2010	6,189,787	22,840,000	450,000	14,325,000	34,410,213	51,930,000	-	130,145,000	1.82%	898
2011	4,731,979	21,565,000	370,000	12,685,000	31,288,021	48,695,000	-	119,335,000	1.55%	871
2012	3,245,864	33,835,000	285,000	10,955,000	28,049,136	63,115,000	-	139,485,000	1.53%	994

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.

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				
2003	\$ 4,505,000	\$ 19,366,985	\$ 23,871,985	\$ 222,568	\$ 23,649,417	0.70%	\$ 228
2004	3,640,000	18,226,024	21,866,024	249,638	\$ 21,616,386	0.61%	211
2005	2,770,000	21,873,237	24,643,237	302,273	\$ 24,340,964	0.66%	253
2006	1,860,000	20,358,513	22,218,513	336,219	\$ 21,882,294	0.55%	239
2007	935,000	25,566,962	26,501,962	328,541	\$ 26,173,421	0.59%	291
2008	-	23,763,474	23,763,474	245,073	\$ 23,518,401	0.45%	237
2009	7,609,852	23,875,000	31,484,852	328,948	\$ 31,155,904	0.52%	309
2010	6,189,787	22,840,000	29,029,787	419,353	\$ 28,610,434	0.44%	237
2011	4,731,979	21,565,000	26,296,979	448,006	\$ 25,848,973	0.38%	215
2012	3,245,864	33,835,000	37,080,864	413,744	\$ 36,667,120	0.52%	337

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.

Table 15

CITY OF MIDLAND, TEXAS
Direct and Overlapping Governmental Activities Debt
As of September 30, 2012

<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	\$ 108,685,730	58.35%	\$ 63,418,123
Midland Junior College	32,595,346	58.35%	19,019,384
Midland County	27,805,000	54.78%	15,231,579
Midland County Hospital District	110,790,000	54.78%	<u>60,690,762</u>
Subtotal, overlapping debt			158,359,849
City of Midland (direct debt)			<u>38,045,091</u>
Total direct and overlapping debt			<u><u>\$ 196,404,940</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.

Table 16

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

Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 7,094,923
Debt limit (8% of assessed value)	567,594
Debt applicable to limit:	
Total bonded debt	139,485
Less:	
Net assets in Debt Service Fund	(414)
Water and Sewer bonds	(5,506)
Airport bonds	(848)
Sports Complex bonds	(1,201)
Golf Course bonds	(37)
Total net debt applicable to limit	<u>131,479</u>
Debt margin	<u>\$ 436,115</u>

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt limit	\$ 270,570	\$ 281,270	\$ 296,083	\$ 315,807	\$ 354,241	\$ 414,246	\$ 480,730	\$ 521,094	\$ 540,542	\$ 567,594
Total net debt applicable to limit	<u>103,339</u>	<u>98,641</u>	<u>97,655</u>	<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>
Debt margin	<u>\$ 167,231</u>	<u>\$ 182,629</u>	<u>\$ 198,428</u>	<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>
Total net debt applicable to the limit as a percentage of debt limit	38.19%	35.07%	32.98%	28.23%	38.29%	31.29%	27.35%	23.55%	20.66%	23.16%

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 \$60,920,000 Tax and Limited Pledge Revenue Certificates of Obligation and \$2,195,000 Combination Tax and Revenue Refunding Bonds; and \$5,990,000 Tax and Airport Subordinate Lien Revenue Certificates of Obligation; and \$194,136 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation; and \$21,865,000 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, Golf Course Fund, and the Scharbauer Sports Complex Fund, respectively.

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
2003	\$ 30,054,259	\$ 23,685,327	\$ 6,368,932	\$ 2,550,188	2.50	\$ 6,090,718	\$ 4,312,412	\$ 1,778,306	\$ 130,500	13.63
2004	28,384,654	24,477,287	3,907,367	2,824,705	1.38	7,040,355	4,104,996	2,935,359	174,863	16.79
2005	31,721,170	25,872,779	5,848,391	2,939,791	1.99	7,136,960	4,380,702	2,756,258	167,963	16.41
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	-	-

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.

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>
2002	96,108	\$ 3,808,350	\$ 32,563	34.1	20,714	4.9%
2003	96,402	4,042,627	34,272	33.5	20,711	5.0%
2004	97,837	4,576,167	38,408	34.3	20,917	4.5%
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	113,931	9,144,318	65,173	33.4	22,130	4.4%

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.

Table 19

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

2012			2003		
<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	3,009	3.56%	Midland Independent School District	3,348	5.57%
Warren Equipment Companies	2,008	2.37%	Key Energy Services, Inc	2,072	3.45%
Midland Memorial Hospital	1,670	1.97%	Basic Energy Services	1,500	2.50%
Dawson Geophysical	1,522	1.80%	Memorial Hospital & Medical Center	1,300	2.16%
Midland College	1,201	1.42%	Midland Junior College	995	1.66%
Schlumberger Oil Field Service	950	1.12%	Warren Equipment Companies	949	1.58%
City of Midland	909	1.07%	City of Midland	897	1.49%
Wal-Mart Super Center	790	0.93%	Cingular Wireless	780	1.30%
Midland County	600	0.71%	Oxy Permian USA, Inc	625	1.04%
Concho Resources	509	0.60%	Chevron / Texaco	600	1.00%
Total	<u>13,168</u>	<u>15.56%</u>		<u>13,066</u>	<u>21.76%</u>

Source: Midland Chamber of Commerce, Bureau of Labor Statistics, individual employers

Table 20

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

<u>Function/Program</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General government										
Administration	6	6	6	6	5	5	6	5	5	8
Support services	90	85	93	98	118	120	123	120	122	114
Fiscal management	15	15	15	15	15	15	17	17	18	17
Development services	95	92	83	88	96	93	105	96	92	89
Community services	62	67	60	62	66	65	72	68	65	70
Police	209	206	205	206	206	208	222	220	223	225
Fire	186	189	187	187	190	193	191	191	184	181
Other	26	26	27	27	1	2	1	1	1	-
Airport	27	26	24	26	26	25	30	29	27	26
Water and sewer	115	106	100	96	100	96	104	93	88	86
Sanitation	46	46	47	45	46	48	51	46	48	51
Sports complex	-	-	-	-	-	-	-	-	-	-
Golf course	9	9	9	10	9	8	10	10	8	9
Total	886	873	856	866	878	878	932	896	881	876

Source: City departments

Table 21

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

<u>Function/Program</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Development services										
Street resurfacing (miles)	N/A	N/A	N/A	10.43	6.96	10.51	13.03	-	16.51	-
Potholes repaired	N/A	N/A	N/A	14,544	15,835	12,755	17,414	39,622	8,495	19,794
Community services										
Animal control animals handled	11,102	11,876	10,857	10,690	11,229	10,906	10,711	8,472	6,706	7,087
Health department immunizations given	20,647	17,766	15,015	15,275	19,757	22,372	25,452	22,251	22,989	16,521
Police										
Traffic citations	16,722	18,361	13,721	14,945	13,774	18,354	18,318	17,076	16,364	17,795
Parking citations	4,699	4,448	5,844	6,131	4,277	5,173	4,468	4,111	4,539	3,508
Criminal misdemeanor citations	6,508	7,489	6,651	6,687	6,624	6,583	5,713	5,198	5,054	4,993
Fire										
Emergency responses	4,914	5,859	6,262	7,238	7,484	8,860	8,873	10,829	12,674	13,490
Fires extinguished	489	507	587	606	537	600	661	543	818	564
Inspections	4,751	5,027	5,329	3,895	4,502	6,117	5,843	6,647	5,246	6,622
Airport										
Major airlines	4	3	3	3	3	4	3	3	4	4
Passengers boardings	398,746	405,413	440,723	466,419	489,369	496,911	433,738	426,288	463,874	488,138
Commercial Landings	8,671	7,881	8,020	8,290	8,580	8,277	7,691	7,936	7,765	7,911
Water and sewer										
New accounts - net	401	412	673	1,188	1,056	916	249	260	523	320
Water main breaks	45	93	53	42	84	41	54	61	79	81
Average daily consumption (MGD)	23.554	23.350	22.200	23.747	20.867	24.516	24.308	22.821	23.531	15.532
Peak daily consumption (MGD)	41.409	41.919	41.593	43.360	33.971	42.349	42.347	40.041	35.374	27.116
Average daily sewage treatment (MGD)	11.218	12.273	11.975	10.950	12.025	11.665	11.663	10.005	10.553	10.123
Sanitation										
Refuse collected (tons)	132,671	127,111	148,677	149,514	171,795	188,450	210,373	180,422	200,711	195,663
Recyclables collected (tons)	7,517	5,849	5,101	4,448	4,774	5,020	1,787	2,016	1,547	1,506
Sports complex										
Baseball stadium attendance ^a	19,394	12,493	11,396	30,462	31,366	332,497	325,064	329,688	322,272	331,195
Football/soccer stadium attendance	244,364	160,392	152,273	181,043	179,677	162,354	172,977	167,086	197,665	123,475
Golf course										
Attendance	63,895	52,663	50,281	54,572	59,933	64,451	62,940	57,104	60,236	63,205
Tournaments	N/A	109	120	125	150	118	89	90	90	82

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.

Table 22

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

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Development services										
Streets - paved (miles)	581	569	561	574	566	571	584	736	741	597
Streets - unpaved (miles)	20	35	21	16	14	12	12	29	28	33
Alleys - paved (miles)	96	100	103	103	109	123	125	133	133	128
Streetlights	5,629	5,496	5,763	5,523	5,667	6,020	6,005	6,050	6,096	6,209
Signalized locations	114	115	118	117	117	116	116	117	118	118
Community services										
Parks acreage	1,177	1,254	1,256	1,256	1,256	1,256	1,256	1,275	1,275	1,275
Playgrounds	38	38	38	38	40	40	40	39	39	39
Baseball/softball diamonds	82	82	82	82	82	64	64	64	64	64
Football/soccer fields	56	56	56	56	56	52	52	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	N/A	N/A	N/A	116	130	128	114	110	138	138
Fire										
Stations	9	9	9	9	9	9	9	9	9	9
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	8,305	8,305	8,305	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)	655	700	735	805	818	838	861	668	771	782
Fire hydrants	2,736	2,795	2,926	2,998	3,121	3,202	3,301	3,297	3,425	3,418
System capacity (million gallons)	60	60	51	51	51	51	51	51	51	51
Sanitary sewers (miles)	508	513	529	572	577	591	600	527	585	591
Storm sewers (miles)	41	46	54	54	46	47	47	43	43	44
Sanitation										
Refuse trucks	N/A	N/A	N/A	38	43	42	42	43	46	37
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



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

2012 Market Valuation Established By Midland Central Appraisal District (excluding totally exempt property)		\$ 7,916,076,863
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead Exemptions	\$ 146,405,313	
Disabled Veterans	4,466,600	
Abatements	0	
Open-Space and Land Use Restrictions and Tax Increment Value	<u>43,876,902</u>	<u>194,748,815</u>
2012 Taxable Assessed Valuation		\$ 7,721,328,048
City Funded Debt Payable From Ad Valorem Taxes (as of 9-30-11)		
General Obligation Bonds and Certificates of Obligation (1)	\$ <u>128,245,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 128,245,000
Less: Self Supporting Debt (2)		
Scharbauer Sports Complex General Obligation Debt	\$ 21,865,000	
Water and Sewer General Obligation Debt	47,260,000	
Airport General Obligation Debt	5,990,000	<u>75,115,000</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 53,130,000
Interest and Sinking Fund (as of 9-30-12) (3)		\$ 453,250
Ratio Funded Debt to Taxable Assessed Valuation		1.66%
Ratio General Purpose Funded Debt to Taxable Assessed Valuation		0.69%
2012 Estimated Population	115,892	
Per Capita 2012 Taxable Assessed Valuation	\$ 66,625.20	
Per Capita Total Funded Debt	\$ 1,106.59	
Per Capita General Purpose Funded Debt	\$ 458.44	

(1) The above statement of indebtedness does not include currently outstanding \$1,245,000 Waterworks and Sewer System Revenue Bonds as these bonds are payable solely from a first lien on the Net Revenues of the system. The statement also does not include \$9,710,000 Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1999, which are payable solely from a junior lien on the Net Revenues of the system.

(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 \$21,865,000 General Obligation Refunding Bonds, Series 2006B

"Water and Sewer General Obligation Debt" consists of \$45,065,000 Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007 and \$2,195,000 Tax and Revenue Refunding Bonds, Series 2007

"Airport General Obligation Debt" consists of \$5,990,000 General Obligation Refunding Bonds, Series 2006A.

(3) Excludes \$1,201,019 to the credit of the Interest and Sinking Fund for Scharbauer Sports complex General Obligation Debt, \$999,431 to the credit of the Water and Sewer General Obligation Debt, and \$848,701 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					
	2013		2012		2011	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 5,115,928,260	61.47%	\$ 4,767,285,960	61.92%	\$ 4,642,728,300	62.24%
Real, Residential, Multi-Family	438,623,740	5.27%	419,574,040	5.45%	403,415,390	5.41%
Real, Vacant Lots/Tracts	186,972,900	2.25%	176,793,950	2.30%	174,263,370	2.34%
Real, Acreage (Land Only)	99,080,780	1.19%	90,204,850	1.17%	92,264,270	1.24%
Real, Farm and Ranch Improvements	30,133,660	0.36%	28,971,370	0.38%	28,437,740	0.38%
Real, Commercial and Industrial	1,444,017,790	17.35%	1,345,917,590	17.48%	1,297,470,220	17.39%
Real, Oil, Gas and Other Mineral Reserves	60,451,810	0.73%	47,912,550	0.62%	51,730,530	0.69%
Real and Tangible Personal, Utilities	112,239,820	1.35%	107,330,570	1.39%	107,921,810	1.45%
Tangible Personal, Commercial and Industrial	788,023,400	9.47%	673,917,980	8.75%	624,187,260	8.37%
Tangible Personal, Other	3,736,860	0.04%	3,451,290	0.04%	3,079,110	0.04%
Real Property, Inventory (1)	42,888,950	0.52%	37,485,910	0.49%	34,098,010	0.46%
Total Appraised Value Before Exemptions	\$ 8,322,097,970	100.00%	\$ 7,698,846,060	100.00%	\$ 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>	

Category	Taxable Appraised Value for Fiscal Year Ended 9-30					
	2010		2009		2008	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 4,561,016,060	65.40%	\$ 4,342,386,160	65.30%	\$ 3,622,645,000	64.24%
Real, Residential, Multi-Family	332,676,180	4.77%	309,918,460	4.66%	195,455,830	3.47%
Real, Vacant Lots/Tracts	78,126,970	1.12%	79,178,100	1.19%	89,312,480	1.58%
Real, Acreage (Land Only)	61,657,000	0.88%	59,359,030	0.89%	55,253,560	0.98%
Real, Farm and Ranch Improvements	27,260,670	0.39%	24,493,660	0.37%	22,733,680	0.40%
Real, Commercial and Industrial	1,056,487,960	15.15%	980,266,340	14.74%	861,699,080	15.28%
Real, Oil, Gas and Other Mineral Reserves	36,159,410	0.52%	45,725,380	0.69%	38,327,960	0.68%
Real and Tangible Personal, Utilities	115,114,640	1.65%	121,178,920	1.82%	127,127,430	2.25%
Tangible Personal, Commercial and Industrial	662,557,080	9.50%	644,617,950	9.69%	588,989,550	10.44%
Tangible Personal, Other	2,749,280	0.04%	2,440,610	0.04%	2,472,050	0.04%
Real Property, Inventory (1)	39,857,780	0.57%	39,954,900	0.60%	35,023,390	0.62%
Total Appraised Value Before Exemptions	\$ 6,973,663,030	100.00%	\$ 6,649,519,510	100.00%	\$ 5,639,040,010	100.00%
Less: Total Exemptions/Reductions	455,105,278		640,777,030		461,334,772	
Taxable Assessed Value	\$ <u>6,518,557,752</u>		\$ <u>6,008,742,480</u>		\$ <u>5,177,705,238</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
2008	106,561	\$ 5,177,705,238	\$ 48,589	\$ 24,325,000	0.47%	\$ 228
2009	108,666	6,008,742,480	55,296	31,940,000	0.53%	294
2010	111,147	6,518,557,752	58,648	29,400,000	0.45%	265
2011	113,931	6,756,772,320	59,306	26,580,000	0.39%	233
2012	115,892	7,094,923,400	61,220	37,275,000	0.53%	322
2013 (4)	117,967	7,721,328,048	65,453	34,480,000	0.45%	292

(1) Source: City of Midland, Texas; the 2010 U.S. Census population was 111,147

(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		
2008	\$ 118,755,000	\$ 10,960,000	\$ 52,665,000	\$ 30,805,000	\$ 24,325,000	
2009	122,230,000	9,790,000	51,400,000	29,100,000	31,940,000	
2010	115,370,000	8,575,000	50,075,000	27,320,000	29,400,000	
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 (1)	120,385,000	4,600,000	61,350,000	19,955,000	34,480,000	

(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
2008	0.5386	0.4633	0.0753	27,889,113	94.95%	98.90%
2009	0.4859	0.4352	0.0507	29,198,318	95.54%	98.13%
2010	0.4568	0.3975	0.0593	29,754,496	95.49%	98.26%
2011	0.47285	0.41719	0.05566	31,949,398	95.92%	98.86%
2012	0.47054	0.41845	0.05209	33,384,453	96.31%	98.70%
2013	0.46109	0.40405	0.05704	35,602,117	N/A	N/A

City of Midland, Texas

Table 5 - Ten Largest Taxpayers

Name of Taxpayer	Nature of Property	2012 Taxable Assessed Valuation	% of 2012 Total Taxable Assessed Valuation
TRA Midland Properties LLC	Real Estate	\$ 75,495,030	0.98%
TXU Electric Delivery Co	Electric Utility	43,437,900	0.56%
Midland Park Mall, LP	Retail	36,042,430	0.47%
Basic Energy Service	Oil and Gas Service Co	30,744,520	0.40%
Claydesta Buildings LP	Real Estate	27,460,610	0.36%
Palms at Briarwood LLC	Real Estate	20,015,000	0.26%
Southwestern Bell Telephone	Telephone Utility	19,859,220	0.26%
Fasken Midland LLC	Real Estate	19,177,650	0.25%
KLP Blue Ridge Apts LP	Real Estate	16,500,000	0.21%
The Clusters Apartments	Real Estate	15,147,160	0.20%
		<u>\$ 303,879,520</u>	<u>3.95%</u>

Table 6 - Tax Adequacy

Maximum Principal and Interest Requirements, All General Obligation Debt.....	\$ 13,767,297
\$.18573 Tax Rate at 96% Collection Produces.....	\$ 13,767,338
Maximum Principal and Interest Requirements General Purpose General Obligation Debt, 2012.....	\$ 4,382,381
\$.05913 Tax Rate at 96% Collection Produces.....	\$ 4,382,996

Table 7 - Estimated Overlapping Debt

Taxing Jurisdiction	Taxable Assessed Valuation As Of 9-30-12 (1)	Tax Rate (1)	Total Funded Debt As Of 9-30-12	Estimated % Applicable to City (1)	City's Overlapping Funded Debt As Of 9-30-12	Authorized But Unissued Debt As Of 9-30-12
City of Midland	\$ 7,721,328,048	\$ 0.461088	\$ 37,275,000 (6)	100.00%	\$ 37,275,000	\$ 0
Midland Independent School District	14,782,675,318	1.140050	108,685,730 (2)	58.35%	63,418,123	0
Midland Community College District	15,657,642,819	0.144180	32,595,346 (5)	58.35%	19,019,384	0
Midland County	16,262,336,431	0.154789	27,805,000 (3)	54.78%	15,231,579	0
Midland County Hospital District	16,623,210,414	0.139730	110,790,000 (4)	54.78%	60,690,762	0
Total Direct and Overlapping G.O. Debt					<u>\$ 195,634,849</u>	
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation					2.53%	
Per Capita Overlapping G.O. Debt					\$ 1,658.39	

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

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					
2013	7,860,000	\$ 5,907,297	\$ 13,767,297	6.13%	1,638,700	2,904,478	4,841,738	4,382,381
2014	8,550,000	5,028,675	13,578,675	12.80%	1,637,450	2,906,478	4,845,799	4,188,948
2015	8,465,000	4,667,260	13,132,260	19.40%	1,637,575	2,903,478	4,851,599	3,739,608
2016	8,840,000	4,303,297	13,143,297	26.29%	1,637,100	2,900,353	4,851,274	3,754,570
2017	6,300,000	3,973,137	10,273,137	31.20%	-	2,906,603	4,241,499	3,125,035
2018	6,565,000	3,702,362	10,267,362	36.32%	-	2,904,428	4,241,424	3,121,510
2019	6,365,000	3,452,174	9,817,174	41.28%	-	2,907,183	4,242,574	2,667,417
2020	6,645,000	3,177,727	9,822,727	46.47%	-	2,907,113	4,243,824	2,671,790
2021	6,500,000	2,875,484	9,375,484	51.53%	-	2,905,488	4,242,518	2,227,478
2022	4,695,000	2,629,987	7,324,987	55.20%	-	852,744	4,242,274	2,229,969
2023	4,015,000	2,450,770	6,465,770	58.33%	-	-	4,241,434	2,224,336
2024	4,200,000	2,274,000	6,474,000	61.60%	-	-	4,245,281	2,228,719
2025	4,390,000	2,081,285	6,471,285	65.02%	-	-	4,243,481	2,227,804
2026	4,585,000	1,887,755	6,472,755	68.60%	-	-	4,245,656	2,227,099
2027	4,775,000	1,699,739	6,474,739	72.32%	-	-	4,246,594	2,228,145
2028	4,410,000	1,513,027	5,923,027	75.76%	-	-	4,242,431	1,680,596
2029	4,595,000	1,328,531	5,923,531	79.34%	-	-	4,242,106	1,681,425
2030	4,060,000	1,151,713	5,211,713	82.51%	-	-	4,243,991	967,722
2031	4,240,000	973,494	5,213,494	85.82%	-	-	4,242,381	971,113
2032	4,425,000	784,713	5,209,713	89.27%	-	-	4,242,494	967,219
2033	2,485,000	626,125	3,111,125	91.20%	-	-	3,111,125	-
2034	2,615,000	498,625	3,113,625	93.24%	-	-	3,113,625	-
2035	2,745,000	364,625	3,109,625	95.38%	-	-	3,109,625	-
2036	2,885,000	223,875	3,108,875	97.63%	-	-	3,108,875	-
2037	3,035,000	75,875	3,110,875	100.00%	-	-	3,110,875	-
Total	\$ 128,245,000	\$ 57,651,552	\$ 185,896,552		\$ 6,550,825	\$ 26,998,346	\$ 102,834,497	\$ 49,512,884

(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 9-30-13	\$ 1,638,700	\$ 4,841,738	\$ 2,904,478	\$ 4,382,381	\$ 13,767,297
Source of Funds, Fiscal Year Ending 9-30-13					
Interest and Sinking Funds, 9-30-12	\$ 848,701	\$ 1,543,526	\$ 1,201,019	\$ 453,250	\$ 4,046,495
Budgeted Ad Valorem Tax Receipts, Including Delinquent Tax Collections				4,288,766	4,288,766
Budgeted Transfers:					
From Water and Sewer Fund	0	4,990,596	0	0	4,990,596
From Airport Fund	496,187	0	0	0	496,187
From Airport Passenger Facility Fund	1,171,107	0	0	0	1,171,107
From Sports Complex Operations Fund	0	0	2,952,751	0	2,952,751
From Golf Course Fund	0	0	0	66,109	66,109
Estimated Investment Income	<u>10,000</u>	<u>13,000</u>	<u>10,000</u>	<u>10,000</u>	<u>43,000</u>
Total Sources of Funds	<u>\$ 2,525,995</u>	<u>\$ 6,547,122</u>	<u>\$ 4,163,770</u>	<u>\$ 4,818,125</u>	<u>\$ 18,055,011</u>
Estimated Balance, 9-30-13	<u>\$ 887,295</u>	<u>\$ 1,705,384</u>	<u>\$ 1,259,292</u>	<u>\$ 435,744</u>	<u>\$ 4,287,714</u>

Table 10 - Computation of Self-Supporting Debt

	Airport	Water & Sewer	Scharbauer Sports Complex ⁽¹⁾
Net Revenues, Fiscal Year Ended 9-30-12	\$ 3,582,933	\$ 11,137,961	\$ 9,061,255
Less: Prior Lien Revenue Bonds Revenue Requirements Fiscal Year 2012 – 2013	<u>0</u>	<u>1,307,250</u>	<u>0</u>
Balance Available for Subordinate Lien Revenue Bond Requirements	\$ 3,582,933	\$ 9,830,711	9,061,255
Less: Subordinate Lien Revenue Bond Requirements Fiscal Year 2012 – 2013	<u>0</u>	<u>1,157,600</u>	<u>0</u>
Balance Available for Other Purposes	\$ 3,582,933	\$ 8,673,111	\$ 9,061,255
Less: System General Obligation Debt Requirements, Fiscal Year 2012 – 2013	<u>1,638,700</u>	<u>4,841,739</u>	<u>2,904,478</u>
Balance	<u>\$ 1,944,233</u>	<u>\$ 3,831,372</u>	<u>\$ 6,156,777</u>
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.

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 following represents the outstanding maturities and associated annual interest payments of this note:

City of Midland, Texas HUD Section 108 Loan Debt Service Schedule			
Fiscal Year Ending 9-30	Principal	Interest	Total
2013	90,000	17,584	107,584
2014	95,000	12,112	107,112
2015	100,000	6,250	106,250
Total Issue	\$ <u>285,000</u>	\$ <u>35,945</u>	\$ <u>320,945</u>

City of Midland, Texas

Table 13 - General Fund Revenues and Expenditure History

	For Fiscal Years Ending September 30,				
	2012	2011	2010	2009	2008
Revenues					
Taxes	\$ 76,802,703	\$ 70,176,536	\$ 60,344,593	\$ 60,751,913	\$ 61,383,573
Licenses and permits	1,936,372	1,604,258	990,770	958,895	1,175,585
Fines and forfeitures	3,808,669	3,648,203	3,276,328	3,134,799	3,166,584
Charges for current services	2,685,136	2,311,691	2,356,353	2,553,851	2,289,242
Rentals	11,344	14,344	24,655	19,769	16,694
Intergovernmental grants	1,442,040	2,194,974	2,500,250	3,635,438	970,550
Investment income	352,527	640,809	818,008	915,026	1,239,475
Miscellaneous	488,952	2,704,778	514,520	940,774	430,092
Total revenues	\$ 87,527,743	\$ 83,295,593	\$ 70,825,477	\$ 72,910,465	\$ 70,671,795
Expenditures					
Administration	\$ 1,229,487	\$ 1,027,080	\$ 1,002,054	\$ 1,013,656	\$ 734,604
Support services	11,986,500	11,779,518	11,571,007	11,180,291	9,855,289
Fiscal management	2,154,462	1,990,886	1,741,478	1,889,392	1,623,328
Development services	2,484,995	10,639,275	11,090,190	11,692,087	9,410,143
Engineering	7,700,839	-	-	-	-
Community services	10,597,142	9,591,163	9,783,237	9,037,633	8,595,533
Police	22,766,719	21,393,542	21,044,525	20,668,423	19,210,537
Fire	20,918,880	18,782,600	18,203,854	18,337,470	16,466,900
Other	2,004,107	1,952,344	2,266,613	2,473,180	2,298,884
Total expenditures	\$ 81,843,131	\$ 77,156,408	\$ 76,702,958	\$ 76,292,132	\$ 68,195,218
Excess of revenues over (under) expenditures	\$ 5,684,612	\$ 6,139,185	\$ (5,877,481)	\$ (3,381,667)	\$ 2,476,577
Other financing sources (uses):					
Sale of capital assets	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	4,932,814	4,948,358	4,668,811	6,003,361	4,307,920
Transfers out	(515,103)	(586,248)	(452,511)	(948,508)	(3,594,977)
Total Other Financing Sources (Uses)	\$ 4,417,711	\$ 4,362,110	\$ 4,216,300	\$ 5,054,853	\$ 712,943
Excess of revenues and other sources over (under) expenditures and other uses	\$ 10,102,323	\$ 10,501,295	\$ (1,661,181)	\$ 1,673,186	\$ 3,189,520
Fund balance at beginning of the year	48,575,197	38,073,902	39,735,083	38,061,897	34,872,377
Fund balance at the end of the year	\$ 58,677,520	\$ 48,575,197	\$ 38,073,902	\$ 39,735,083	\$ 38,061,897

City of Midland, Texas

Table 14 - Municipal Sales Tax History

<u>Fiscal Year Ended 9-30</u>	<u>Total Collected</u>	<u>% of Ad Valorem Tax Levy</u>	<u>Equivalent of Ad Valorem Tax Rate</u>	<u>Per Capita (1)</u>
2008	25,776,037	92.42%	0.4978	241.89
2009	23,848,005	81.68%	0.3969	219.46
2010	23,563,357	79.19%	0.3615	212.00
2011	30,281,637	94.78%	0.4482	268.20
2012	35,472,615	106.25%	0.5000	306.08

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

Table 15 - Current Investments

As of September 30, 2012, the City's investable funds were invested in the following categories:

<u>Type of Investment</u>	<u>% of Market Value</u>	<u>Market Value</u>
U.S. Treasury Notes and Bills	0.00%	\$ 0
U.S. Agency and Instrumentality	29.12%	70,029,220
Cash and Local Government Pools	<u>70.88%</u>	<u>170,485,783</u>
Totals	<u>100.00%</u>	<u>\$ 240,515,003</u>

As of such date, 70.29% 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 0.6991%. Average maturity of the portfolio was 34.89 months.

City of Midland, Texas

Table 16A - Airport Statement of Operations

	For Fiscal Year Ending September 30,				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2007</u>
Operating Revenues					
Terminal (1)					
Airport Parking	\$ 2,245,055	\$ 2,047,487	\$ 1,815,315	\$ 1,814,053	\$ 2,007,896
Airport Building Rental	3,107,199	2,924,153	2,658,054	2,800,906	3,058,919
Airport Aviation Rental	234,823	219,237	211,114	224,054	240,575
Airport Landing Fees	435,169	430,466	424,918	416,877	457,275
Airport Commercial Rentals	181,789	145,659	144,567	142,144	121,803
Airport Fuel and Oil Commissions	98,528	94,520	84,603	80,832	96,305
Miscellaneous	95,197	113,309	132,630	143,374	221,235
	<u>\$ 6,397,760</u>	<u>\$ 5,974,831</u>	<u>\$ 5,471,201</u>	<u>\$ 5,622,240</u>	<u>\$ 6,204,008</u>
Air Park (2)					
Airpark Rentals	\$ 145,220	\$ 144,432	\$ 143,856	\$ 142,097	\$ 142,097
Airpark Fuel and Oil Commissions	18,874	18,250	14,468	15,293	17,474
	<u>\$ 164,094</u>	<u>\$ 162,682</u>	<u>\$ 158,324</u>	<u>\$ 157,390</u>	<u>\$ 159,571</u>
Total Operating Revenues	<u>\$ 6,561,854</u>	<u>\$ 6,137,513</u>	<u>\$ 5,629,525</u>	<u>\$ 5,779,630</u>	<u>\$ 6,363,579</u>
Nonoperating Revenues					
Passenger Facility Charges	\$ 2,126,221	\$ 1,816,827	\$ 1,808,537	\$ 1,638,332	\$ 1,997,918
Other Nonoperating	388,153	283,486	490,305	381,750	572,463
	<u>\$ 2,514,374</u>	<u>\$ 2,100,313</u>	<u>\$ 2,298,842</u>	<u>\$ 2,020,082</u>	<u>\$ 2,570,381</u>
Total Nonoperating Revenues	<u>\$ 2,514,374</u>	<u>\$ 2,100,313</u>	<u>\$ 2,298,842</u>	<u>\$ 2,020,082</u>	<u>\$ 2,570,381</u>
GROSS REVENUES	<u>\$ 9,076,228</u>	<u>\$ 8,237,826</u>	<u>\$ 7,928,367</u>	<u>\$ 7,799,712</u>	<u>\$ 8,933,960</u>
OPERATING AND MAINTENANCE EXPENSES (3)					
Salaries and Fringe Benefits	\$ 1,929,992	\$ 1,889,317	\$ 1,891,405	\$ 1,863,637	\$ 1,581,556
Contractual Services	1,816,722	2,091,181	2,338,144	2,095,244	1,821,675
Maintenance of Structures	65,661	51,563	153,539	62,362	116,312
Maintenance of Equipment	52,287	40,181	48,711	35,994	57,173
Foreign Trade Zone	154,132	169,730	146,988	160,877	189,501
General Fund Services	1,409,574	1,410,971	1,424,839	1,373,011	1,443,885
Supplies	64,927	72,734	78,065	61,631	59,228
Other Expenses	-	-	-	25,469	430
	<u>\$ 5,493,295</u>	<u>\$ 5,725,677</u>	<u>\$ 6,081,691</u>	<u>\$ 5,678,225</u>	<u>\$ 5,269,760</u>
TOTAL OPERATING AND MAINTENANCE EXPENSES	<u>\$ 5,493,295</u>	<u>\$ 5,725,677</u>	<u>\$ 6,081,691</u>	<u>\$ 5,678,225</u>	<u>\$ 5,269,760</u>
NET REVENUES	<u>\$ 3,582,933</u>	<u>\$ 2,512,149</u>	<u>\$ 1,846,676</u>	<u>\$ 2,121,487</u>	<u>\$ 3,664,200</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	Fiscal Year Ended 9-30,				
	2012	2011	2010	2009	2008
Water Sales (1)	\$ 29,800,549	\$ 33,602,251	\$ 29,397,204	\$ 30,907,091	\$ 31,051,106
Sewer Charges (1)	10,130,998	9,689,794	9,284,805	8,902,585	8,777,687
Other Operating Revenue	498,317	480,468	377,507	445,844	1,499,330
Total Operating Revenue	\$ 40,429,864	\$ 43,772,513	\$ 39,059,516	\$ 40,255,520	\$ 41,328,123
Non-Operating Income (2)	1,142,787	1,501,255	1,999,871	2,128,819	3,029,945
Total Revenue	\$ 41,572,651	\$ 45,273,768	\$ 41,059,387	\$ 42,384,339	\$ 44,358,068
OPERATING EXPENSE (3)					
Salaries and Fringe Benefits	\$ 5,392,602	\$ 5,371,588	\$ 5,425,255	\$ 5,437,281	\$ 5,060,734
Contractual Services (4)	18,718,955	20,268,652	18,491,190	17,985,171	18,934,155
Maintenance of Structure	412,906	303,721	301,953	539,709	287,597
Maintenance of Equipment	335,035	417,057	320,186	351,790	404,643
Franchise Fees	2,398,143	2,599,173	2,324,821	2,393,081	2,393,628
General Fund Services	1,371,654	1,469,399	1,452,378	1,323,172	1,291,533
Supplies	1,805,380	1,876,189	1,587,762	1,642,300	1,513,792
Other Expenses	15	111	770	65,263	69,132
Total Operating Expenses	\$ 30,434,690	\$ 32,305,890	\$ 29,904,315	\$ 29,737,767	\$ 29,955,214
Net Revenues	\$ <u>11,137,961</u>	\$ <u>12,967,878</u>	\$ <u>11,155,072</u>	\$ <u>12,646,572</u>	\$ <u>14,402,854</u>
Water Customers	38,087	37,767	37,244	36,984	36,735
Sewer Customers (Est.)	38,087	37,767	37,244	36,984	36,735

(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, 9-30-12..... \$ 9,710,000

Subordinate Lien Bonds:

Waterworks and Sewer System Junior Lien Revenue Bonds Outstanding, 9-30-12..... 15,855,000

Total Waterworks and Sewer System Revenue Bonds Outstanding, 9-30-12..... \$ 25,565,000

Table 18 - Historical Water Pumpage and Consumption

Fiscal Year Ended 9-30	Water Pumpage Average Day Pumpage (MGD)	Peak Day Pumpage (MGD)	Total Pumpage (Million Gallons)	Water Consumption Average Day Consumption (MGD)	Total Consumption (Million Gallons)
2008	25.31	42.35	9,262	22.50	8,235
2009	24.93	42.35	9,099	23.36	8,528
2010	23.74	40.04	8,664	21.54	7,863
2011	25.35	35.37	9,254	24.00	8,759
2012	15.92	27.12	5,826	15.56	5,694
Average Number of Accounts, 10/11 - 9/12 (est.).....			37,927		
Average Monthly Water Bill, 10/11 - 9/12 (est.).....			\$87.74		
Average Monthly Consumption per Account.....			12.51		

WATER & SEWER REVENUE DEBT

(Unaudited)

City of Midland, Texas

Table 1 - Historical Statement of Operations - Waterworks and Sewer System

REVENUES	Fiscal Year Ended 9-30,				
	2012	2011	2010	2009	2008
Water Sales (1)	\$ 29,800,549	\$ 33,602,251	\$ 29,397,204	\$ 30,907,091	\$ 31,051,106
Sewer Charges (1)	10,130,998	9,689,794	9,284,805	8,902,585	8,777,687
Other Operating Revenue	498,317	480,468	377,507	445,844	1,499,330
Total Operating Revenue	\$ 40,429,864	\$ 43,772,513	\$ 39,059,516	\$ 40,255,520	\$ 41,328,123
Non-Operating Income (2)	1,142,787	1,501,255	1,999,871	2,128,819	3,029,945
Total Revenue	\$ 41,572,651	\$ 45,273,768	\$ 41,059,387	\$ 42,384,339	\$ 44,358,068
OPERATING EXPENSE (3)					
Salaries and Fringe	\$ 5,392,602	\$ 5,371,588	\$ 5,425,255	\$ 5,437,281	\$ 5,060,734
Benefits					
Contractual Services (4)	18,718,955	20,268,652	18,491,190	17,985,171	18,934,155
Maintenance of Structure	412,906	303,721	301,953	539,709	287,597
Maintenance of Equipment	335,035	417,057	320,186	351,790	404,643
Franchise Fees	2,398,143	2,599,173	2,324,821	2,393,081	2,393,628
General Fund Services	1,371,654	1,469,399	1,452,378	1,323,172	1,291,533
Supplies	1,805,380	1,876,189	1,587,762	1,642,300	1,513,792
Other Expenses	15	111	770	65,263	69,132
Total Operating Expenses	\$ 30,434,690	\$ 32,305,890	\$ 29,904,315	\$ 29,737,767	\$ 29,955,214
Net Revenues	\$ 11,137,961	\$ 12,967,878	\$ 11,155,072	\$ 12,646,572	\$ 14,402,854
Water Customers	38,087	37,767	37,244	36,984	36,735
Sewer Customers (Est.)	38,087	37,767	37,244	36,984	36,735

(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 2 - Outstanding System Revenue Bonds

Prior Lien Bonds:

Waterworks and Sewer System (Prior Lien) Revenue Bonds Outstanding, 9-30-12..... \$ 9,710,000

Subordinate Lien Bonds:

Waterworks and Sewer System Junior Lien Revenue Bonds Outstanding, 9-30-12..... 15,855,000

Total Waterworks and Sewer System Revenue Bonds Outstanding, 9-30-12..... \$ 25,565,000

Table 3 - Historical Debt Service Coverage

Fiscal Year Ended 9-30	Net Revenues	Required Use of Rate Stabilization Fund Subordinate Lien Bonds	Maximum Annual Principal Requirements Prior Lien Bonds (1)	Coverage of Prior Lien Bonds (1)	Maximum Debt Service Requirements Combined Prior Lien and Subordinate Lien Bonds (2)	Coverage of Combined Prior Lien and Subordinate Lien Bonds (2)
2008	\$ 14,402,854	\$ -	\$ 1,307,250	11.02x	\$ 2,466,800	5.84x
2009	12,646,572	-	1,307,250	9.67x	2,466,800	5.13x
2010	11,155,072	-	1,307,250	8.53x	2,466,800	4.52x
2011	12,967,878	-	1,307,250	9.92x	2,466,800	5.26x
2012	11,137,961	-	1,307,250	8.52x	2,464,850	4.52x

(1) Calculated as of 9-30 for each Fiscal Year. Rate Covenant requires not less than 1.25 times coverage.

(2) Calculated as of 9-30 for each Fiscal Year with interest on the Subordinate Lien Bonds calculated at 8% for fiscal years 1999 and prior and 6% thereafter. Rate covenant requires not less than 1.50 times coverage.

Table 4 - Fund Balances

	Interest and Sinking Funds	Reserve Fund (Fully Established)
Prior Lien Bonds, 9-30-12	\$ 570,511	\$ 1,297,571
Subordinate Lien Bonds, 9-30-12	\$ 565,331	\$ 1,528,500

City of Midland, Texas

**Table 5 - Calculation of Prior Lien Bonds and Subordinate Lien Bonds
Debt Service Requirements**

Debt Service Requirements (As Paid)	Fiscal Year Ended 09/30/12
Prior Lien Bonds	\$ 1,297,758
Subordinate Lien Bonds	786,102
Total Prior and Subordinate Lien Bonds	<u>\$ 2,083,860</u>
Estimated System Net Revenues, Fiscal Year Ended 9-30-12	\$ 11,137,961
Use of Rate Stabilization Fund	-
Coverage of Combined Debt Service Requirements by Net Revenues, Fiscal Year Ended 9-30-12	5.34 Times

Table 6 - Fund Balances - CRMWD Contract Revenue Bonds

The final payment to retire these bonds was made on March 1, 1998.

City of Midland, Texas

Table 7 - Monthly Water Rates (Effective April 1, 2012)

	Previous Rates (Effective 10-1-10)	Previous Rates (Effective 10-1-11)	Current Rates (Effective 4-1-12)
<u>All Customers (except Apartments)</u>			
First 2,000 Gallons	\$ 14.00 (Minimum)	\$ 14.35 (Minimum)	\$ 14.35 (Minimum)
Over 2,000 Gallons up to 10,000 Gallons	3.18 / 1,000 gallons	3.26 / 1,000 gallons	3.26 / 1,000 gallons
Over 10,000 Gallons up to 35,000 Gallons	3.39 / 1,000 gallons		
Over 35,000 Gallons	3.66 / 1,000 gallons		
Over 10,000 Gallons up to 25,000 Gallons (ED 10-1-11)		3.91 / 1,000 gallons	19.55 / 1,000 gallons
Over 25,000 Gallons (ED 10-1-11)		4.50 / 1,000 gallons	22.50 / 1,000 gallons
<u>Apartments (1)</u>			
First 2,000 Gallons per unit	\$ 10.50 / unit (Minimum)	\$ 11.50 / unit (Minimum)	\$ 11.50 / unit (Minimum)
Over 2,000 up to 10,000 Gallons times number of units	3.18 / 1,000 gallons	3.26 / 1,000 gallons	3.26 / 1,000 gallons
Over 10,000 Gallons up to 35,000 Gallons	3.39 / 1,000 gallons		
Over 35,000 Gallons	3.66 / 1,000 gallons		
Over 10,000 Gallons up to 25,000 Gallons (ED 10-1-11)		3.91 / 1,000 gallons	19.55 / 1,000 gallons
Over 25,000 Gallons (ED 10-1-11)		4.50 / 1,000 gallons	22.50 / 1,000 gallons
<hr/>			
(1) Example for 100 unit apartment:			
First 200,000 Gallons per unit (100x2,000 gallons)	\$ 1,050.00 (Minimum)	\$ 1,150.00 (Minimum)	\$ 1,150.00 (Minimum)
200,001 to 1,000,000 Gallons times number of units	3.18 / 1,000 gallons	3.26 / 1,000 gallons	3.26 / 1,000 gallons
1,000,001 to 3,500,000 Gallons times number of units	3.39 / 1,000 gallons		
3,500,001 and over Gallons times number of units	3.66 / 1,000 gallons		
1,000,001 to 2,500,000 Gallons times number of units		3.91 / 1,000 gallons	19.55 / 1,000 gallons
2,500,001 and over Gallons times number of units		4.50 / 1,000 gallons	22.50 / 1,000 gallons

All water rates will increase by 2.5% on the anniversary of the effective date unless otherwise modified by the City Council (1.25% prior to 10-1-09)

Table 8 - Monthly Sewer Rates (Effective April 1, 2012)

	Previous Rates (Effective 10-1-10)	Previous Rates (Effective 10-1-11)	Current Rates (Effective 4-1-12)
Residential (1)	\$ 16.96 (Minimum)	\$ 17.39 (Minimum)	\$ 17.39 (Minimum)
<u>Commercial (Based on Water Consumption)</u>			
First 25,000 Gallons	\$ 16.96 (Minimum)	\$ 17.39 (Minimum)	\$ 17.39 (Minimum)
Next 475,000 Gallons	0.68 / 1,000 gallons	0.70 / 1,000 gallons	0.70 / 1,000 gallons
Over 500,000 Gallons	0.52 / 1,000 gallons	0.53 / 1,000 gallons	0.53 / 1,000 gallons

(1) Each apartment classified as a separate dwelling unit.

City of Midland, Texas

Table 9 - Value of the System

	Fixed Asset Value of the Waterworks and Sewer System Fiscal Year Ended September 30,				
	2012	2011	2010	2009	2008
Property, Plant and Equipment	\$ 220,182,120	\$ 202,371,426	\$ 192,318,262	\$ 184,108,867	\$ 174,455,522
Less: Allowance for Depreciation	<u>(75,816,712)</u>	<u>(70,090,654)</u>	<u>(89,132,079)</u>	<u>(85,230,042)</u>	<u>(81,670,094)</u>
	144,365,408	132,280,772	103,186,183	98,878,825	92,785,428
Construction in Process	<u>20,900,061</u>	<u>25,127,612</u>	<u>46,732,588</u>	<u>39,686,714</u>	<u>18,342,725</u>
Net System Value	<u>\$ 165,265,469</u>	<u>\$ 157,408,384</u>	<u>\$ 149,918,771</u>	<u>\$ 138,565,539</u>	<u>\$ 111,128,153</u>

Table 10 - City's Equity in System

	City's Equity in the Waterworks and Sewer System Fiscal Year Ended September 30,				
	2012	2011	2010	2009	2008
Net Fixed Asset Value	\$ 165,265,469	\$ 157,408,384	\$ 149,918,771	\$ 138,565,539	\$ 111,128,153
Plus: Net Bond Construction Funds	14,370,346	2,127,166	6,285,760	15,885,689	40,850,976
Other Long-Term Assets	907,798	821,816	911,600	1,017,814	1,162,315
Net Working Capital (1)	<u>62,431,344</u>	<u>65,160,203</u>	<u>57,493,659</u>	<u>55,273,979</u>	<u>51,005,212</u>
Value of the System	\$ 242,974,957	\$ 225,517,569	\$ 214,609,790	\$ 210,743,021	\$ 204,146,656
Net Debt (net of unamortized charges)					
Revenue Bonds Outstanding	\$ 10,955,000	\$ 12,685,000	\$ 14,325,000	\$ 15,895,000	\$ 17,385,000
Certificates of Obligation Outstanding	63,115,000	48,695,000	50,075,000	51,400,000	52,665,000
Notes Payable	0	6,000,000	0	35,400	39,850
	<u>\$ 74,070,000</u>	<u>\$ 67,380,000</u>	<u>\$ 64,400,000</u>	<u>\$ 67,330,400</u>	<u>\$ 70,089,850</u>
Less: Interest and Sinking and Reserve Funds	<u>(5,154,825)</u>	<u>(4,604,132)</u>	<u>(4,577,737)</u>	<u>(4,519,398)</u>	<u>(4,341,613)</u>
	\$ 68,915,175	\$ 62,775,868	\$ 59,822,263	\$ 62,811,002	\$ 65,748,237
Plus: Accrued Interest	626,671	302,646	343,333	342,910	367,625
Compensated Absences	271,329	304,195	322,508	346,722	266,767
Other Postemployment Benefits	<u>1,446,522</u>	<u>1,088,422</u>	<u>732,187</u>	<u>-</u>	<u>-</u>
Net Debt	<u>\$ 71,259,697</u>	<u>\$ 64,471,131</u>	<u>\$ 61,220,291</u>	<u>\$ 63,500,634</u>	<u>\$ 66,382,629</u>
City's Equity in System	<u>\$ 171,715,260</u>	<u>\$ 161,046,438</u>	<u>\$ 153,389,499</u>	<u>\$ 147,242,387</u>	<u>\$ 137,764,027</u>
Percentage City's Equity in System	70.67%	71.41%	71.47%	69.87%	67.48%

(1) Current portion of capital leases payable classified as a current liability.

City of Midland, Texas

Table 11 - ProForma System Revenue Bond Debt Service Requirements

Fiscal Year Ending	Prior Lien Revenue Bonds			Subordinate Lien Revenue Bonds (1)			Combined Requirements All Revenue Bonds	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2013	\$ 1,245,000	\$ 62,250	\$ 1,307,250	\$ 575,000	\$ 582,600	\$ 1,157,600	\$ 2,464,850	16.61%
2014				610,000	548,100	1,158,100	1,158,100	
2015				645,000	511,500	1,156,500	1,156,500	
2016				685,000	472,800	1,157,800	1,157,800	
2017				725,000	431,700	1,156,700	1,156,700	
2018				770,000	388,200	1,158,200	1,158,200	47.97%
2019				815,000	342,000	1,157,000	1,157,000	
2020				865,000	293,100	1,158,100	1,158,100	
2021				920,000	241,200	1,161,200	1,161,200	
2022				975,000	186,000	1,161,000	1,161,000	
2023				1,030,000	127,500	1,157,500	1,157,500	90.00%
2024				1,095,000	65,700	1,160,700	1,160,700	100.00%
	<u>\$ 1,245,000</u>	<u>\$ 62,250</u>	<u>\$ 1,307,250</u>	<u>\$ 9,710,000</u>	<u>\$ 4,190,400</u>	<u>\$ 13,900,400</u>	<u>\$ 15,207,650</u>	

(1) Interest on the Subordinate Lien Revenue bonds is payable monthly at a variable rate and has been calculated at 6% in accordance with the Ordinance authorizing the issuance of the Subordinate Lien Revenue Bonds.

City of Midland, Texas

Table 12 - Other System Obligations

The City has no lease-purchase agreements for the acquisition of any assets in the Water and Sewer system.

Table 13A - Historical Water Pumpage and Consumption

Fiscal Year Ended 9-30	Water Pumpage Average Day Pumpage (MGD)	Peak Day Pumpage (MGD)	Total Pumpage (Million Gallons)	Water Consumption Average Day Consumption (MGD)	Total Consumption (Million Gallons)
2008	25.31	42.35	9,262	22.50	8,235
2009	24.93	42.35	9,099	23.36	8,528
2010	23.74	40.04	8,664	21.54	7,863
2011	25.35	35.37	9,254	24.00	8,759
2012	15.92	27.12	5,826	15.56	5,694

Average Number of Accounts, 10/11 - 9/12 (est.).....	37,927
Average Monthly Water Bill, 10/11 - 9/12 (est.).....	\$87.74
Average Monthly Consumption per Account.....	12.51

Table 13B - Water Deliveries from CRMWD

Fiscal Year Ended 9-30	1966 Contract			Ivie Reservoir Deliveries		
	Water Delivered (Million Gallons)	Average Price Per 1,000 Gallons	Total Cost	Water Delivered (Million Gallons)	Average Pumping Cost Per 1,000 Gallons	Total Cost
2008	4883.63	1.6085	7,855,324	2144.38	0.6727	1,442,438
2009	5473.32	1.5767	8,629,782	1936.01	0.4769	923,329
2010	5557.73	1.6085	8,939,609	1269.86	0.5883	747,060
2011	5584.43	1.7533	9,791,181	1534.80	0.5887	903,479
2012	5652.77	1.6587	9,376,243	75.93	3.0977	235,209

Table 13C - Ten Largest Water Customers (October, 2011 - September, 2012)

Customer	Type of Industry	Water Consumption (Thousand Gallons)	Bill Amount
City of Midland	Incorporated City	91,871	\$ 512,025
Midland Schools	Public Schools	64,312	285,098
Midland Memorial Hospital	Hospital	56,507	250,355
Midland College	Community College	38,110	234,463
Northridge Court Apartments LP	Apartments	21,566	92,056
Summit Building	Office Buildings	20,104	88,656
Midland Memorial West Campus	Hospital	19,984	89,784
Fasken Midland LLC	Office Buildings	17,629	77,442
Blue Ridge C/O Velocity	Apartments	16,963	75,168
Kington Properties	Apartments	16,048	69,639
	Total	363,094	\$ 1,774,684

City of Midland, Texas

Table 14A - Sewage Flows

Fiscal Year Ended 9-30	Daily Average Flow (MGD)
2008	11.63
2009	11.70
2010	10.98
2011	10.59
2012	10.95

Table 14B - Ten Largest Wastewater Customers (October, 2011 - September, 2012)

Customer	Type of Industry	Wastewater Volume (Thousand Gallons)	Bill Amount
Midland Memorial Hospital	Hospital	55,545	\$ 31,427
Midland Schools	Public Schools	24,751	26,093
Summit Building	Office Building	20,104	11,650
Midland Memorial West Campus	Hospital	19,984	11,356
Fasken Midland LLC	Office Building	17,629	10,713
Culligan Soft Water	Water Purification	15,984	9,388
Midland College	Community College	13,512	12,309
Superwash Coin Laundry	Coin Operated Laundry	13,264	9,029
Midland County Auditor	County Administration	12,611	8,538
H.E. Butt Grocery Co.	Grocery Store	12,393	7,572
		205,777	\$ 138,074

Table 15 - Current Investments

As of September 30, 2012, 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	29.12%	70,029,220
Cash and Local Government Pools	70.88%	170,485,783
Totals	100.00%	\$ 240,515,003

As of such date, 70.29% 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 0.6991%. Average maturity of the portfolio was 34.89 months.

AIRPORT REVENUE DEBT

(Unaudited)

City of Midland, Texas

Table 1 - Passenger Enplanements on Scheduled Airline Flights

Calendar Year	Southwest Airlines (1)	Continental Airlines (2)	American Eagle (3)	Other Airlines	Total
2008	324,592	79,361	83,209	241	487,403
2009	269,157	74,168	76,340	1,180	420,845
2010	269,195	76,730	72,029	24,589	442,543
2011	287,982	73,852	71,449	33,070	466,353
2012	295,403	52,584	81,942	60,597	490,526

(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 Airport 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 Airport in connection with the operation of an air transportation system. All current airline agreements will terminate at midnight on January 31, 2014, unless terminated sooner according to various provisions within each agreement.

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, 2013.

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 2013.

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 9-30-12 is \$5,990,000). 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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Operating Revenues</u>					
<u>Terminal (1)</u>					
Airport Parking	\$ 2,245,055	\$ 2,047,487	\$ 1,815,315	\$ 1,814,053	\$ 2,007,896
Airport Building Rental	3,107,199	2,924,153	2,658,054	2,800,906	3,058,919
Airport Aviation Rental	234,823	219,237	211,114	224,054	240,575
Airport Landing Fees	435,169	430,466	424,918	416,877	457,275
Airport Commercial Rentals	181,789	145,659	144,567	142,144	121,803
Airport Fuel and Oil Commissions	98,528	94,520	84,603	80,832	96,305
Miscellaneous	95,197	113,309	132,630	143,374	221,235
	<u>\$ 6,397,760</u>	<u>\$ 5,974,831</u>	<u>\$ 5,471,201</u>	<u>\$ 5,622,240</u>	<u>\$ 6,204,008</u>
<u>Air Park (2)</u>					
Airpark Rentals	\$ 145,220	\$ 144,432	\$ 143,856	\$ 142,097	\$ 142,097
Airpark Fuel and Oil Commissions	18,874	18,250	14,468	15,293	17,474
	<u>\$ 164,094</u>	<u>\$ 162,682</u>	<u>\$ 158,324</u>	<u>\$ 157,390</u>	<u>\$ 159,571</u>
Total Operating Revenues	<u>\$ 6,561,854</u>	<u>\$ 6,137,513</u>	<u>\$ 5,629,525</u>	<u>\$ 5,779,630</u>	<u>\$ 6,363,579</u>
<u>Nonoperating Revenues</u>					
Passenger Facility Charges	\$ 2,126,221	\$ 1,816,827	\$ 1,808,537	\$ 1,638,332	\$ 1,997,918
Other Nonoperating	388,153	283,486	490,305	381,750	572,463
Total Nonoperating Revenues	<u>\$ 2,514,374</u>	<u>\$ 2,100,313</u>	<u>\$ 2,298,842</u>	<u>\$ 2,020,082</u>	<u>\$ 2,570,381</u>
GROSS REVENUES	<u>\$ 9,076,228</u>	<u>\$ 8,237,826</u>	<u>\$ 7,928,367</u>	<u>\$ 7,799,712</u>	<u>\$ 8,933,960</u>
<u>OPERATING AND MAINTENANCE EXPENSES (3)</u>					
Salaries and Fringe Benefits	\$ 1,929,992	\$ 1,889,317	\$ 1,891,405	\$ 1,863,637	\$ 1,581,556
Contractual Services	1,816,722	1,820,549	2,338,144	2,095,244	1,821,675
Maintenance of Structures	65,661	51,563	153,539	62,362	116,312
Maintenance of Equipment	52,287	40,181	48,711	35,994	57,173
Foreign Trade Zone	154,132	169,730	146,988	160,877	189,501
General Fund Services	1,409,574	1,410,971	1,424,839	1,373,011	1,443,885
Supplies	64,927	72,734	78,065	61,631	59,228
Other Expenses	-	-	-	25,469	430
TOTAL OPERATING AND MAINTENANCE EXPENSES	<u>\$ 5,493,295</u>	<u>\$ 5,455,045</u>	<u>\$ 6,081,691</u>	<u>\$ 5,678,225</u>	<u>\$ 5,269,760</u>
NET REVENUES	<u>\$ 3,582,933</u>	<u>\$ 2,782,781</u>	<u>\$ 1,846,676</u>	<u>\$ 2,121,487</u>	<u>\$ 3,664,200</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, 2012.....	\$	0
Coverage of Maximum Requirements by 9-30-11 Net Revenues.....		n/a
Coverage of Maximum Requirements by 9-30-12 Net Revenues.....		n/a
 Airport Revenue Bonds to be Outstanding, 9-30-12.....	 \$	 0

Table 8 - Current Investments

As of September 30, 2012, the City's investable funds were invested in the following categories:

Type of Investment

<u>Description</u>	<u>% of Market Value</u>	<u>Market Value</u>
U.S. Treasury Notes and Bills	0.00%	\$ 0
U.S. Agency and Instrumentality	29.12%	70,029,220
Cash and Local Government Pools	<u>70.88%</u>	<u>170,485,783</u>
Totals	<u>100.00%</u>	<u>\$ 240,515,003</u>

As of such date, 70.29% 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 0.6991%. Average maturity of the portfolio was 34.89 months.