Financial Statements
and
Independent
Auditor's Report

MISSION ECONOMIC DEVELOPMENT CORPORATION

September 30, 2007

LONG CHILTON, LLP
Certified Public Accountants
4100 North Twenty-Third Street
McAllen, Texas 78504
(956) 686-3701

MISSION ECONOMIC DEVELOPMENT CORPORATION
Year Ended September 30, 2007

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INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board
Mission Economic Development Corporation
Mission, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mission Economic Development Corporation, a component unit of the City of Mission, Texas, as of and for the year ended September 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion 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 purposes of expressing an opinion on the effectiveness of the Corporation’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 and each major fund of the Mission Economic Development Corporation, a component unit of the City of Mission, Texas, as of September 30, 2007, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management’s Discussion and Analysis (MD&A) on pages 3 through 9 and the budgetary comparison information on pages 29-30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The other supplementary information section, listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Mission Economic Development Corporation, a component unit of the City of Mission, Texas. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
January 22, 2008

BASIC FINANCIAL STATEMENTS

MISSION ECONOMIC DEVELOPMENT CORPORATION Exhibit A-1

STATEMENT OF NET ASSETS

September 30, 2007

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 1,204,399
Investments	1,140,795
Taxes receivable - sales	500,180
Interest receivable	-
Restricted Assets	573,850
Total Assets	3,419,224
LIABILITIES	
Accounts payable	6,780
Accrued interest payable from restricted assets	40,809
Due to primary government	299,935
Noncurrent liabilities	
Due within one year	215,000
Due in more than one year	4,905,000
Total Liabilities	5,467,523
NET ASSETS	
Restricted For:	
Debt service	533,041
Unrestricted	(2,581,341)
Total Net Assets	$ (2,048,300)

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION

Exhibit A-2

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Governmental Activities
COMPONENT UNIT				
Governmental Activities:				
General government	$ 2,369,344	$ 381,516	$	$ (1,987,828)
Capital projects	635,572		12,864	(622,708)
Interest and fiscal charges on long-term debt	267,383	25,777		(241,606)
Total Governmental Activities	3,272,299	407,293	12,864	(2,852,142)
Total Component Unit	$ 3,272,299	$ 407,293	$ 12,864	(2,852,142)

General Revenue:	
Sales taxes	2,953,115
Interest earned	108,516
Total General Revenues	3,061,631
Change in Net Assets	209,489
Net Assets – 10/01/06	(2,257,788)
Net Assets – 09/30/07	$ (2,048,299)

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION Exhibit A-3
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2007

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,204,399	$ 1,901	$ -	$ 1,206,300
Investments	1,140,795	565,869	-	1,706,664
Receivables:				
Sales Tax	500,180	-	-	500,180
Accrued interest receivable	-	6,080	-	6,080
Total Assets	$ 2,845,374	$ 573,850	$ -	$ 3,419,224
LIABILITIES				
Accounts payable	$ 6,780	$ -	$ -	$ 6,780
Due to primary government	299,935	-	-	299,935
Total Liabilities	306,715	-	-	306,715
FUND BALANCES				
Reserved for debt service	-	573,850	-	573,850
Unreserved	2,538,659	-	-	2,538,659
Total Fund Balances	2,538,659	573,850	-	3,112,509
Total Liabilities and Fund Balances	$ 2,845,374	$ 573,850	$ -	$ 3,419,224

The accompanying notes are an integral part of this statement.

Exhibit A-4

MISSION ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
September 30, 2007

Total fund balances – governmental funds balance sheet	$ 3,112,509
Amounts reported for governmental activities in the statement of net assets are different because:	
Payables for bond principal which are not due in the current period are not reported in funds.	(5,120,000)
Payables for bond interest which are not due in the current period are not reported in funds.	(40,809)
Net assets of governmental activities – statement of net assets	$ (2,048,300)

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

Exhibit A-5

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues:				
Taxes	$ 2,953,115	$ -	$ -	$ 2,953,115
Interest	108,516	25,777	12,864	147,157
Miscellaneous	381,516	-	-	381,516
Total Revenues	3,443,147	25,777	12,864	3,481,788
Expenditures:				
Current:				
General Government:				
Economic development	2,369,345	-	164,273	2,533,618
Capital projects:				
Street improvements	-	-	471,299	471,299
Debt service:				
Principal	-	205,000	-	205,000
Interest and fiscal charges	-	268,959	-	268,959
Total Expenditures	2,369,345	473,959	635,572	3,478,876
Excess (Deficiency) of Revenues over Expenditures	1,073,802	(448,182)	(622,708)	2,912
Other Financing Sources (Uses):				
Operating transfers	(473,959)	474,133	(174)	
Total Other Financing Sources (Uses)	(473,959)	474,133	(174)	-
Net Change in Fund Balance	599,843	25,951	(622,882)	2,912
Fund Balance at Beginning of Year	1,938,818	547,899	622,882	3,109,599
Fund Balance at End of Year	$ 2,538,661	$ 573,850	$ -	$ 3,112,511

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION

Exhibit A-6

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

For the Year Ended September 30, 2007

Net change in fund balances – total governmental funds	$	2,912
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:		
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		205,000
(Increase) decrease in accrued interest payable from beginning of period to end of period		1,576
Change in net assets of governmental activities – statement of activities	$	209,488

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mission Economic Development Corporation (MEDC), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The accounting policies of the MEDC as reflected in the accompanying financial statements conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB).

A. *Reporting Entity*

The Mission Economic Development Corporation (MEDC) was organized on behalf of the City of Mission, Texas for the specific public purpose of the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare. MEDC is governed by a seven member board of directors, each of which is appointed by the City Council. Any director may be removed from office by the City Council for cause or at will. MEDC's primary source of revenues is sales tax revenues generated by the City of Mission. In addition, the City approves the programs and expenditures of MEDC and must approve amendments to MEDC's bylaws and Articles of Incorporation.

On September 12, 1994 the Mission Economic Development Corporation (MEDC) was issued a Certificate of Incorporation by the State of Texas as a nonprofit corporation under the Development Corporation Act of 1979 Vernon's Ann Civ. St. Art. 5190.6 as amended by adding Sec. 413.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* generally are supported by taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

MEDC reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the MEDC. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund – Capital Projects Funds are used to account for the acquisition of capital assets or the construction of capital facilities.

C. Measurement focus and basis of accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, MEDC considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims and judgments, are recorded only when payment is due.

Sales taxes collected and held by the intermediary collecting governments at year end on behalf of the MEDC also are recognized as revenue.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

D. *Cash and Investments*

Cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments consist of money market investments and certificates of deposit.

Money market investments which are short-term, highly liquid debt instruments including commercial paper, bankers acceptance and U.S. Treasury and agency obligations are reported at amortized cost. All other investments are reported at fair value except for certificates of deposit which are stated at cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Mission Economic Development Corporation is authorized to invest in certificates of deposit, obligations of the U.S. Government and its agencies, or instrumentalities and state obligations. Investments are reported at amortized cost, except for certificates of deposit which are stated at cost.

E. *Interfund Activity*

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

F. *Restricted Assets*

Certain proceeds of Sales tax revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "interest and sinking fund" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "reserve fund" account is used to report resources set aside to make up potential future deficiencies in the interest and sinking fund.

G Long-Term Obligations

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received and discounts incurred on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service expenditures.

H. *Fund Equity*

In governmental fund financial statements, fund balance that represents amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose are reported as reservations of fund balance. Amounts representing tentative management plans, which are subject to change, are reported as designations of fund balance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

I. *Prepaid Items*

In the governmental fund types, payments made for services that benefit periods beyond the current year are recorded as expenditures in the current year.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits - At September 30, 2007, the carrying value of the Mission Economic Development Corporation's deposits was $953,594 and the bank balance was $975,262. All deposits were fully insured or collateralized.

Investments - During the year, MEDC's investments consisted of obligations of the U.S. Government or its Agencies and instrumentalities. Investments are categorized to give an indication of the level of risk assumed by MEDC at September 30, 2007. Such investments are categorized as either (1) insured or registered in MEDC's name, or securities held by MEDC or its agent in MEDC's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in MEDC's name, or (3) uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in MEDC's name.

<u>Investments</u>

The primary objective of MEDC's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they are from security defaults or erosion of market value.

MEDC's policy authorizes the following investment instruments:

1. Obligations of the United States of America, its agencies and instrumentalities, which have a liquid market with a readily determinable market value.
2. Direct obligations of the State of Texas and agencies thereof.
3. Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America.
4. Obligations of the States, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rate as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or its equivalent.
5. Certificates of Deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations described in 1 through 4 above, which are intended to include all direct agency or instrumentality issued mortgage backed securities rated AAA by nationally recognized rating agency, or by Article 2529b-1, V.T.C.S., and that have a market value of not less than the principal amount of the certificates.
6. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged with a

NOTE 2 - DEPOSITS AND INVESTEMENTS *(Continued)*

third party, selected by the Finance Director, other than an agency for the pledgor. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A master repurchase agreement must be signed by the bank/dealer prior to investment in a repurchase agreement.

7. Joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Interest Rate Risk –

The risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

MEDC's investment policy limits average maturities of all investments to one year or less. The maximum final stated maturity of any investment shall not exceed five years. Portfolio diversification is employed as a way to control the risk. MEDC's investment portfolio is required to have sufficient liquidity to meet anticipated cash flow requirements.

The following is the Interest Rate Risk using Specific Identification, as of September 30, 2007:

		Maturity Period	
Investment Type	Amortized Cost	3 Months or Less	4-12 Months
Federal Home Loan Bank	$ 247,800	$ 247,800	$ -
Federal Home Loan Bank	247,437	247,437	-
Federal Home Loan Bank	147,872	-	147,872
Freddie Discount	149,810	-	149,810
Freddie Discount	248,969	248,969	-
Federal Nat'l Mortgage Assc.	198,912	-	198,912
Federal Nat'l Mortgage Assc.	198,731	-	198,731
Federal Nat'l Mortgage Assc.	247,896	-	247,896
Federal Nat'l Mortgage Assc.	74,369	-	74,369
Federal Nat'l Mortgage Assc.	197,574	-	197,574
	$ 1,959,370	$ 744,206	$ 1,215,164

Credit Risk –

MEDC's investment policy authorizes the following pools:

Public funds investment pools in Texas ("Pools") are established under the authority of the Inter-local Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to

NOTE 2 - DEPOSITS AND INVESTEMENTS *(Continued)*

the provisions of the Public Funds Investment Act (the "Act"). Chapter 2258 of the Texas Government Code, in addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

Statutes authorize MEDC to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, certain municipal securities, repurchase agreements, and other investments specifically allowed by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code).

MEDC's investment policies and types of investments are governed by the Public Funds Investments Act (PFIA). The Corporation's management believes that it complied with the requirements of the PFIA and the Corporation's Investment policies.

As of September 30, 2007, the following was the composition of MEDC's credit rating by investment:

Credit Quality Distribution of Securities
With Credit Exposure as a Percentage of Total Investments

Investment Type	Rating	Exposure
Federal Home Loan Bank	AAA	13%
Federal Home Loan Bank	AAA	13%
Federal Home Loan Bank	AAA	8%
Freddie Discount	AAA	8%
Freddie Discount	AAA	13%
Federal Nat'l Mortgage Assc.	AAA	10%
Federal Nat'l Mortgage Assc.	AAA	10%
Federal Nat'l Mortgage Assc.	AAA	13%
Federal Nat'l Mortgage Assc.	AAA	4%
Federal Nat'l Mortgage Assc.	AAA	10%

Concentrations of Credit Risk –

Portfolio diversification is critically important to MEDC to help mitigate the risk of loss. The following are employed terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer, as a way to control risk.

NOTE 2 - DEPOSITS AND INVESTEMENTS *(Continued)*

As of September 30, 2007, the following was the composition of MEDC's investment portfolio:

Federal Home Loan Bank	AAA	13%
Federal Home Loan Bank	AAA	13%
Federal Home Loan Bank	AAA	8%
Freddie Discount	AAA	8%
Freddie Discount	AAA	13%
Federal Nat'l Mortgage Assc.	AAA	10%
Federal Nat'l Mortgage Assc.	AAA	10%
Federal Nat'l Mortgage Assc.	AAA	13%
Federal Nat'l Mortgage Assc.	AAA	4%
Federal Nat'l Mortgage Assc.	AAA	10%

A reconcilement of cash and investments as shown on the statement of net assets for MEDC follows:

Carrying amount deposit	$	953,594
Investments		1,959,370
Cash and Investments Statement of Net Assets	$	2,912,964
Cash and cash equivalents	$	1,204,399
Investments		1,140,795
Restricted Assets		573,850
Less: Accrued Interest		(6,080)
Cash and Investments Statement of Net Assets	$	2,912,964

Custodial Credit Risk –

For an investment, custodial credit risk is the risk that MEDC will not be able to recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to an investment will not fulfill its obligation.

MEDC's investments are categorized as a level one custodial credit risk, meaning that its investments are insured or registered or securities held by MEDC or its' agent in MEDC's name.

MEDC is prohibited from investing in the following types of investments:

NOTE 2 - DEPOSITS AND INVESTEMENTS *(Continued)*

a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

c. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.

d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Due to/from the primary government and component unit at September 30, 2007 were as follows:

Receivable Entity	Payable Entity	Amount
Primary Government-City of Mission	MEDC-General Fund	$ 299,935

B. Interfund Transfers:

	Transfers In	
Transfer Out:	Debt Service Fund	Total
General Fund	$ 473,959	$ 473,959
Capital Projects Fund	174	174
Total Transfer Out	$ 474,133	$ 474,133

Transfers out of the general fund to the debt service fund were tax collections to cover debt service requirements that came due within the fiscal year. Other transfers out from the general to capital project fund were to pay for projects not part of those to be paid for with bond proceeds.

NOTE 4 - RESTRICTED ASSETS

Restricted assets held by Mission Economic Development Corporation at September 30, 2007 consist of the following:

	Cash and Cash Equivalents	Investments	Accrued Interest	Total
Reserve Fund	$ 172	$ 136,500	$ 5,233	$ 141,905
Debt Service Fund	1,729	429,369	847	431,945
	$ 1,901	$ 565,869	$ 6,080	$ 573,850

NOTE 5 - LONG-TERM DEBT PAYABLE

MEDC has issued sales tax revenue bonds to finance various construction projects to enhance economic development in the Mission area. These bonds are to be repaid with sales tax revenue.

Sales tax revenue bonds payable at September 30, 2007 for the MEDC are comprised of the following:

$1,415,000 (Tax-Exempt) Sales Tax Revenue Serial Bonds Series 1995 due in annual installments ranging from $30,000 to $110,000 from January 1, 1997 through 2020; interest at 5.25% to 6.60%.	$ 1,005,000
$5,180,000 Subordinate Lien Sales Tax Revenue Bonds Series 1999 due in annual installments ranging from $110,000 to $345,000 from February 15, 2000 through 2024; interest at 4.15% to 5.0%. Bonds maturing in 2010 and beyond are subject to being called in increments of $5,000.	4,115,000
Total	$ 5,120,000

NOTE 5 - LONG-TERM DEBT PAYABLE *(Continued)*

The annual requirements to retire the sales tax revenue bonds including interest are as follows:

Year Ending September 30,	Principal	Interest
2008	$ 215,000	$ 257,042
2009	225,000	246,528
2010	235,000	235,416
2011	245,000	223,624
2012	260,000	210,995
2013-2017	1,525,000	833,125
2018-2022	1,740,000	385,624
2023-2027	675,000	34,125
Total	$ 5,120,000	$ 2,426,479

The following is a summary of changes in long-term debt obligations for MEDC for the year ended September 30, 2007:

	September 30, 2006	Additional Obligations and Net Increases	Retirements and Net Decreases	September 30, 2007	Due within One Year
Sales Tax Revenue Bonds	$ 5,325,000	$ -	$ 205,000	$ 5,120,000	$ 215,000

The above listed bond issues are to be repaid from the 1/2 cent sales tax levied under the Section 413 referred to above. Since the City of Mission is the entity authorized by state law to levy such a sales tax, a financing agreement was signed between the City of Mission and MEDC to permit the transfer from the City of Mission to the MEDC the amount of Section 4B sales tax collected to fund all projects of the MEDC as well as to repay the aforementioned bonds.

NOTE 6 – CONDUIT DEBT OBLIGATIONS

Mission Economic Development Corporation (the "Issuer") pursuant to Texas Civil Statutes Article 5190.6(the "Act"),and the Industrial Revenue Bond Program (the "Rules"), Title l0 Texas Administrative Code Chapter 180, promulgated by the Office of the Governor, Economic Development and Tourism Division (the "Division") has issued the following Industrial Development Bonds to finance various projects in the State of Texas:

	Balance at September 30, 2007
$41,750,000 Solid Waste Disposal Revenue Bonds (Waste Management, Inc. Project) Series 2006 dated December 1, 2006	$ 41,750,000
$24,000,000 Variable Rate Demand Solid Waste Disposal Revenue Bonds (IESI Texas Corporation Project) Series 2007 dated March 1, 2007	24,000,000
$56,800,000 Solid Waste Disposal Revenue Bonds (Allied Waste North America, Inc. Project) Series 2007 A dated April 1, 2007	56,800,000
$6,000,000 Variable Rate Demand Industrial Development Revenue Bonds (CMI Project) Series 2007 dated May 1, 2007	6,000,000
	$ 128,550,000

All of the bonds listed above are payable solely from, and secured solely by a pledge of payments made under loan agreements between the borrowers and MEDC which are assigned under separate Trust Indentures with various banks. The payments required under the loan agreement are further guaranteed under either Guaranty Agreements or Irrevocable Letters of Credit issued in favor of the Trustee under the Trust Indenture.

Neither the State of Texas, Mission, Texas nor any political corporation, subdivision or agency of the State of Texas shall be obligated to pay the principal of, premium, if any, the interest on, or the purchase price of the bonds, and neither the faith and credit nor the taxing power of the State of Texas, Mission, Texas or any other political corporation, subdivision, or agency thereof is pledged to the payment of the principal of, premium, if any, interest on, or the purchase price of the bonds.

In connection with the process which ultimately may lead to the issuance of conduit debt, MEDC charges an application fee of $2,500 per application. During the year ended September 30, 2007, MEDC received a net $5,000 (net of $5,000 in advisor fees) in application fees.

NOTE 6 – CONDUIT DEBT OBLIGATIONS *(Continued)*

After conduit debt has been issued, MEDC charges an annual fee based upon the original par value of the bonds, which ranges from 2 basis points to 5 basis points depending on the type of project and the rating of the bonds being issued. For the year ended September 30, 2007, MEDC received a net $376,516 in annual fees (net of $231,633 in advisor and local access fees).

NOTE 7 – RISK MANAGEMENT

MEDC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which it obtains commercial insurance through the City of Mission, Texas, of which it is a component unit. There have been no significant reductions in insurance coverage from the previous year; no negative statements or jury awards have exceeded insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

MISSION ECONOMIC DEVELOPMENT CORPORATION
GENERAL FUND
BUDGETARY COMPARISION SCHEDULE
For the Year Ended September 30, 2007

Exhibit B-1

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Taxes:				
Sales tax	$ 2,992,800	$ 2,992,800	$ 2,953,115	$ (39,685)
Total Taxes	2,992,800	2,992,800	2,953,115	(39,685)
Interest:				
Interest earned on investments	20,000	20,000	85,761	65,761
Interest earned on demand deposit	11,000	11,000	22,755	11,755
Total Interest	31,000	31,000	108,516	77,516
Miscellaneous:				
Application Fees- Ind. Dev. Bonds	-	-	5,000	5,000
Annual Filing Fees- Ind. Dev. Bonds	-	-	376,516	376,516
Total Miscellaneous	-	-	381,516	381,516
Total Revenues	3,023,800	3,023,800	3,443,147	419,347
Expenditures:				
Current:				
General Government:				
Street and drainage improvements	1,000,000	1,170,000	1,082,888	87,112
Travel, training, dues and subscriptions	5,000	5,000	975	4,025
Community promotions	4,000	4,000	3,300	700
Professional services	160,000	160,000	138,819	21,181
M.E.D.A operating grant	800,000	800,000	800,000	-
M.E.D.A. incentives	700,000	700,000	279,378	420,622
Texas Citrus Fiesta	50,000	62,500	62,500	-
Contingency	50,000	50,000	-	50,000
Administration and miscellaneous	1,500	1,500	1,485	15
Total General Government	2,770,500	2,953,000	2,369,345	583,655
Total Expenditures	2,770,500	2,953,000	2,369,345	583,655
Excess (Deficiency) of Revenues Over Expenditures	253,300	70,800	1,073,802	1,003,002

MISSION ECONOMIC DEVELOPMENT CORPORATION

Exhibit B-1

GENERAL FUND

BUDGETARY COMPARISION SCHEDULE - CONTINUED

For the Year Ended September 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Other Financing Sources (Uses):				
Operating transfers out	(473,959)	(473,959)	(473,959)	-
Total Other Financing Sources (Uses)	(473,959)	(473,959)	(473,959)	-
Net Change in Fund Balance	(220,659)	(403,159)	599,843	1,003,002
Fund Balance at Beginning of Year	1,938,818	1,938,818	1,938,818	-
Fund Balance at End of Year	$ 1,718,159	$ 1,535,659	$ 2,538,661	$ 1,003,002

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2007

The board of directors prepares a budget each year which is then submitted to the City Manager of the City of Mission, Texas. The budget of the MEDC is incorporated into the budget process for the City of Mission, Texas which is described below. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits a proposed operating budget for all funds, as mandated by the City Charter, to the City Council 60 to 90 days prior to the beginning of each fiscal year. The operating budget includes proposed expenditures and the means of financing them.

2. The City Council selects the time and place of a public hearing on the budget to obtain taxpayer comments.

3. The appropriated budget is adopted by a majority vote of the City Council, and signed into law by a budget ordinance.

4. The budget amounts used in this report are as amended by the City Council.

5. Budgetary appropriations lapse at the end of each fiscal year.

6. The total estimated expenditures of the General Fund and Debt Service Fund may not exceed the total estimated revenues plus cash on hand of each fund.

7. The current level of budgetary control is the department level within each fund.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Budgets for the Capital Projects Fund are adopted over the multiple-year term of the project.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

OTHER SUPPLEMENTARY INFORMATION

MISSION ECONOMIC DEVELOPMENT CORPORATION
DEBT SERVICE FUND
BUDGETARY COMPARISION SCHEDULE
For the Year Ended September 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes:			
Interest earned on investment	$ 11,000	$ 21,362	$ 10,362
Interest earned on demand deposit	2,000	4,415	2,415
Total Revenues	13,000	25,777	12,777
Expenditures:			
Current:			
Debt Service:			
Principal retirement	205,000	205,000	-
Interest and fiscal agent charges	268,959	268,959	-
Total Debt Service	473,959	473,959	-
Total Expenditures	473,959	473,959	-
Excess (Deficiency) of Revenues Over Expenditures	(460,959)	(448,182)	12,777
Other Financing Sources (Uses):			
Operating transfers	473,959	474,133	174
Total Other Financing Sources (Uses)	473,959	474,133	-
Net Change in Fund Balance	13,000	25,951	12,951
Fund Balance at Beginning of Year	547,899	547,899	-
Fund Balance at End of Year	$ 560,899	$ 573,850	$ 12,951

COMPLIANCE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Chairman and Members of the Board
Mission Economic Development Corporation
Mission, Texas

Members of the Board:

We have audited the financial statements of the governmental activities and each major fund of the Mission Economic Development Corporation as of and for the year ended September 30, 2007, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated January 22, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management and is not intended to be and should not be used by anyone other than these specified parties.

LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
January 22, 2008