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Financial Statements and
Independent Auditor's Report: September 30, 2016
Mission Economic Development Corporation

City of Mission, Texas

**MISSION
ECONOMIC
DEVELOPMENT
CORPORATION**

(A COMPONENT UNIT OF THE CITY OF MISSION)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

SEPTEMBER 30, 2016

MEMBER BOARD OF DIRECTORS

YEAR ENDED SEPTEMBER 30, 2016

President	S. David Deanda, Jr.
Vice President	Jody Tittle
Secretary	Richard Hernandez
Treasurer	Linda Requénez
Director	Mayor Norberto Salinas
Director	Catherine Garcia
Director	Pete Jaramillo

MISSION ECONOMIC DEVELOPMENT CORPORATION

(a component unit of the City of Mission)

Year Ended September 30, 2016

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MISSION ECONOMIC DEVELOPMENT CORPORATION

(a component unit of the City of Mission)

Year Ended September 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, of Mission Economic Development Corporation, a component unit of the City of Mission, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Mission Economic Development Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, of Mission Economic Development Corporation, a component unit of the City of Mission, Texas, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8–12 and 41–42 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mission Economic Development Corporation's basic financial statements. The other supplementary information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information as listed in the table of contents, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2017, on our consideration of Mission Economic Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mission Economic Development Corporation's internal control over financial reporting and compliance.

Burton McArthur & Co., LLP

McAllen, Texas
February 9, 2017

Mission Economic Development Corporation
(a component unit of the City of Mission)
Management's Discussion and Analysis
September 30, 2016

As management of the Mission Economic Development Corporation (MEDC), we offer readers of the Mission Economic Development Corporation financial statements this narrative overview and analysis of the financial activities of the Mission Economic Development Corporation for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements and disclosures following this section.

Financial Highlights

- The assets of MEDC exceeded liabilities at the close of the most recent fiscal year by \$109,704 (net position).
- The positive net position is due to the continuing reduction of MEDC's long-term debt and the redirection of use of resources for other economic purposes other than infrastructure and capital improvements.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to MEDC's basic financial statements. MEDC's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of MEDC's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements present governmental activities of the Corporation that are principally supported by sales taxes and charges for services.

The government-wide financial statements can be found on pages 16-17 of this report.

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. MEDC, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of MEDC are governmental.

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.

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*.

MEDC maintains three 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, the debt service fund and the capital projects fund.

MEDC adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

Notes to the 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. The notes to the financial statements begin on page 22 of this report.

Other information. A budgetary comparison schedule is included as Required Supplementary Information (RSI) for the General Fund on page 41-42. Budgetary comparison schedules for the Debt Service Fund and Capital Projects Fund are provided as other supplementary information on pages 47-48

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of MEDC, assets exceeded liabilities by \$109,704 at the close of the fiscal year. Compared to the prior year, the net position increased by \$42,060 or 62%.

Mission Economic Development Corporation

Net Position
September 30, 2016

	Governmental Activities	
	2016	2015
Current and other assets	\$ 10,317,490	\$ 4,258,704
Capital assets	9,778,602	14,083
Total assets	20,096,092	4,272,787
Long-term liabilities	18,786,483	2,730,000
Other liabilities	1,199,905	1,475,144
Total liabilities	19,986,388	4,205,144
Net Position:		
Net investment in capital assets	9,778,602	14,084
Restricted	221,089	231,481
Unrestricted (deficit)	(9,889,987)	(177,921)
Total net position	\$ 109,704	\$ 67,644

At the end of the current fiscal year, MEDC is unable to report a positive balance in unrestricted net position. The net position deficit is due to the fact that MEDC, with the exception of furniture and equipment, does not hold any capital assets in its name; therefore, any long-term debt issued is to provide funding for City of Mission infrastructure projects. Restricted net position is restricted for the purpose of debt service and net investment in capital assets.

The following table presents detail on revenues and expenses for the governmental activities that affected net position.

**Mission Economic Development Corporation
Changes in Net Position
September 30, 2016**

	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues:		
Charges for services	\$ 523,852	\$ -
Operating grants and contributions	-	81,284
General revenues:		
Other taxes	3,792,009	3,826,488
Interest	13,170	20,644
Miscellaneous	54,705	5,005
Total revenues	<u>4,383,736</u>	<u>3,933,421</u>
Expenses:		
Economic development	4,095,413	3,400,473
Interest on long-term debt	246,263	168,489
Total expenses	<u>4,341,676</u>	<u>3,568,962</u>
Changes in net position	42,060	364,459
Net position 10/01/15	67,644	(296,815)
Net position 09/30/16	<u>\$ 109,704</u>	<u>\$ 67,644</u>

Governmental activities. Governmental activities for the fiscal year increased MEDC’s net position by \$42,060, increasing the net position from prior year. Total revenues reflect an increase of 10% compared to last year. Expenses reflected an increase of 22% compared to prior year. The increase is attributed to capital projects undertaken in fiscal year 2016.

Financial Analysis of Government’s Funds

As noted earlier, MEDC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of MEDC governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing MEDC 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.

At the end of the current fiscal year, MEDC's governmental funds reported combined ending fund balances of \$10,242,009 an increase of \$6,403,668 in comparison with the prior year. Unassigned fund balance for all governmental funds, which is available for spending at MEDC discretion, reflects a negative \$937,457. In accordance with GASB No. 54, \$120,910 of total fund balance is considered nonspendable for prepaid and redevelopment assets; \$6,468,526 is restricted for capital projects; \$252,465 is restricted for debt service; and \$4,337,565 is committed for various economic development projects.

The General Fund is the chief operating fund of MEDC. At the end of the current fiscal year, unassigned fund balance was a deficit of \$937,457; however the total fund balance of the general fund was \$3,521,018. 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. Expenditures exceeded both the unassigned fund balance and total fund balance for fiscal year 2016.

During the current fiscal year, the MEDC general fund balance decreased by \$67,596 or 1.88%. The key component and factor was a sales tax revenue decrease of less than 1% or \$34,479 compared to prior year.

The Debt Service Fund has a total fund balance of \$252,465, all of which is reserved for the payment of debt service. Sufficient funds were available in the Debt Service Fund to meet principal and interest due for FY 2016.

The Capital Projects Fund has a total fund balance of \$6,468,525. The board authorized two bank loans, one from Lonestar Bank issued in May of 2016 in the amount of \$2,000,000 to be used to furnish and equip the new Mission CEED Building and one from Frost Bank issued in September of 2016 in the amount of \$6,000,000 for the purchase of real property located adjacent to the site of the new City of Mission Events Center.

General Fund Budgetary Highlights

During the year, the MEDC Board amended the budget several times. The MEDC budget is amended when a new economic development project is undertaken by the Board. MEDC must follow state guidelines when amending the annual budget for economic development projects. All budget amendments must be approved by both the MEDC Board and City Council. The budget was amended by \$8,510,820 during the year.

The original revenue budget was not amended in FY 2016.

- Actual revenues exceed final budget by \$388,536. The majority of the increase is attributed to annual filing fees related to conduit debt obligations.

There were several changes in the original to final budget on the expenditures.

- The Capital Projects fund had the most significant increase from original to final budget due to the issues of two new loans and the projects they will fund in the amount of \$7,890,000. Administration also increased from original to final budget in the amount of \$8,826,988 due to the creation of the new MEDC CEED Building in personnel and related utility expenditures and the application of a capital lease. Also, MEDC committed \$30,000 per year for support services towards the Madero International Vehicular and Rail Bridge until the commencement of operations.

Capital Asset and Debt Administration

Long-term debt. At the end of the current fiscal year, MEDC had total long-term debt outstanding of \$19,879,531, including a capital lease obligation totaling \$9,149,531.

Mission Economic Development Corporation Outstanding Sales Tax Revenue Bonds and Notes September 30, 2016

	Governmental Activities	
	2016	2015
Sales Tax Refunding Bonds Series 2010	\$ 2,730,000	\$ 3,065,000
2016 FNB Loan	-	701,535
2016 Lonestar Loan	2,000,000	-
2016 Frost Loan	6,000,000	-
Total	<u>\$ 10,730,000</u>	<u>\$ 3,766,535</u>

As of September 30, 2016, MEDC had no authorized but unissued bonds. Additional information on MEDC's long-term debt can be found on pages 32-33 of this report.

Economic Factors and Next Year's Budget

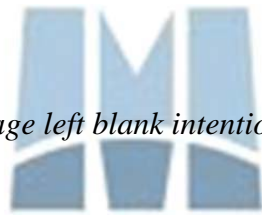
Sales tax is the major revenue source for MEDC and changes in the economy for the City of Mission will have an impact on MEDC's financial situation. Another major economic factor that can affect MEDC's financial situation is the unemployment rate.

- According to the Texas Labor Market Review, the unemployment rate for the City of Mission as of November 30, 2016 was 5.4%, which represents a decrease compared to 6.2% from prior year. The state and national average unemployment rates are at 4.2% and 4.4% respectively.
- The 2016 General Fund operating budget was prepared using \$2,809,187 as the estimated restricted fund balance at September 30, 2016. The actual fund balance for the general fund was \$3,521,018; nevertheless, a \$3,356,273 fund balance is projected at September 30, 2017.

Requests for Information

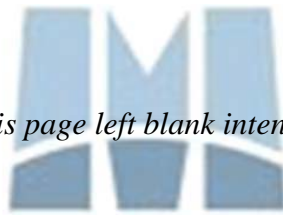
This financial report is designed to provide a general overview of MEDC's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 1201 East 8th Street, City of Mission, Texas, 78572.

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*BASIC FINANCIAL
STATEMENTS*

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MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
STATEMENT OF NET POSITION
September 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,525,951
Investments	1,302,904
Due from primary government	2,455
Due from other government	6,500
Prepaid	10,244
Redevelopment assets	110,666
Receivables, net	636,931
Restricted assets	6,721,839
Capital assets:	
Capital assets, net of accumulated depreciation	<u>9,778,602</u>
Total Assets	<u>20,096,092</u>
LIABILITIES	
Accounts payable	50,335
Accrued interest payable from restricted assets	31,376
Accrued wages payable	7,372
Due to primary government	17,774
Noncurrent liabilities	
Due within one year	1,093,048
Due in more than one year	<u>18,786,483</u>
Total Liabilities	<u>19,986,388</u>
NET POSITION	
Net investment in capital assets	9,778,602
Restricted for:	
Debt Service	221,089
Unrestricted	<u>(9,889,987)</u>
Total Net Position	<u>\$ 109,704</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expenses) Revenue and Changes in Net Assets Governmental Activities</u>
Functions/Programs			
Governmental activities:			
Economic development	\$ 4,095,413	\$ 522,826	\$(3,572,587)
Interest and fiscal charges on long-term debt	246,263	1,026	(245,237)
Total Governmental Activities	<u>4,341,676</u>	<u>523,852</u>	<u>(3,817,824)</u>
Total	<u>4,341,676</u>	<u>523,852</u>	<u>(3,817,824)</u>
General Revenues:			
Sales taxes			3,792,009
Interest earned			13,170
Miscellaneous			54,705
Total General Revenues			<u>3,859,884</u>
Change in Net Assets			42,060
Net Position - Beginning of Year			67,644
Net Position - End of Year			<u>\$ 109,704</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
BALANCE SHEET-GOVERNMENTAL FUNDS
September 30, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,525,951	\$ 252,465	\$ 6,469,374	\$ 8,247,790
Investments	1,302,904	-	-	1,302,904
Prepaid	10,244	-	-	10,244
Redevelopment assets	110,666	-	-	110,666
Receivables:				
Sales Tax	635,317	-	-	635,317
Accounts-other	1,614	-	-	1,614
Due from primary government	2,455	-	-	2,455
Due from other government	6,500	-	-	6,500
Total Assets	<u>\$ 3,595,651</u>	<u>\$ 252,465</u>	<u>\$ 6,469,374</u>	<u>\$ 10,317,490</u>
LIABILITIES				
Accounts payable	\$ 49,487	\$ -	\$ 848	\$ 50,335
Accrued wages payable	7,372	-	-	7,372
Due to primary government	17,774	-	-	17,774
Total Liabilities	<u>74,633</u>	<u>-</u>	<u>848</u>	<u>75,481</u>
FUND BALANCES				
Nonspendable	120,910	-	-	120,910
Restricted for capital projects	-	-	6,468,526	6,468,526
Restricted for debt	-	252,465	-	252,465
Committed	4,337,565	-	-	4,337,565
Unassigned	(937,457)	-	-	(937,457)
Total Fund Balances	<u>3,521,018</u>	<u>252,465</u>	<u>6,468,526</u>	<u>10,242,009</u>
Total Liabilities and Fund Balances	<u>\$ 3,595,651</u>	<u>\$ 252,465</u>	<u>\$ 6,469,374</u>	<u>\$ 10,317,490</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2016

Total fund balances - governmental funds balance sheet	\$ 10,242,009
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not reported in the funds.	9,778,602
Payables for capital leases which are not due in the current period are not reported in funds.	(9,149,531)
Payables for bond principal which are not due in the current period are not reported in funds.	(10,730,000)
Payables for bond interest which are not due in the current period are not reported in funds.	(31,376)
Net position of governmental activities - statement of net position	<u>\$ 109,704</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 3,792,009	\$ -	\$ -	\$ 3,792,009
Interest	12,915	1,026	254	14,195
Miscellaneous	579,372	-	-	579,372
Total Revenues	<u>4,384,296</u>	<u>1,026</u>	<u>254</u>	<u>4,385,576</u>
Expenditures:				
Current:				
General Government:				
Economic development	12,355,976	-	-	12,355,976
Capital projects:				
Economic development	-	-	1,505,796	1,505,796
Debt service:				
Principal	119,010	1,036,535	-	1,155,545
Interest and fiscal charges	73,490	159,644	-	233,134
Total Expenditures	<u>12,548,476</u>	<u>1,196,179</u>	<u>1,505,796</u>	<u>15,250,451</u>
Excess (Deficiency) of Revenue over Expenditures	<u>(8,164,180)</u>	<u>(1,195,153)</u>	<u>(1,505,542)</u>	<u>(10,864,875)</u>
Other Financing Sources (Uses):				
Capital lease agreements	9,268,541	-	-	9,268,541
Operating transfers	(1,171,958)	1,197,891	(25,933)	-
Debt issuance proceeds	-	-	8,000,000	8,000,000
Total Other Financing Sources (Uses)	<u>8,096,583</u>	<u>1,197,891</u>	<u>7,974,067</u>	<u>17,268,541</u>
Net change in fund balances	(67,597)	2,738	6,468,525	6,403,666
Fund Balances at Beginning of Year	<u>3,588,615</u>	<u>249,727</u>	<u>-</u>	<u>3,838,342</u>
Fund Balances at End of Year	<u>\$ 3,521,018</u>	<u>\$ 252,465</u>	<u>\$ 6,468,525</u>	<u>\$ 10,242,008</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
 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, 2016

Net change in fund balances - total governmental funds	\$	6,403,666
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:		
Capital assets used in governmental activities are not reported in the funds.		9,924,899
The depreciation of capital assets used in governmental activities is not reported in the funds.	(158,540)
Loss on removal of an asset donated during the fiscal year but not fully depreciated.	(1,840)
Capital lease agreements provided current financial resources in the funds but are not reported as revenues in the SOA.	(9,268,541)
Debt proceeds provided current financial resources in the funds but are not reported as revenues in the SOA.	(8,000,000)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.		119,010
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		1,036,535
(Increase) decrease in accrued interest payable from beginning of period to end of period	(<u>13,129)</u>
Change in net position of governmental activities - statement of activities	<u>\$</u>	<u>42,060</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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. Funding for MEDC comes from an additional ½ of 1% sales tax approved by the voters of the City of Mission. MEDC is operated and governed by a seven member board of directors, six of whom are appointed by the City Council. The seventh member is the mayor of the City of Mission, Texas. The City Council also appoints an alternate board member to serve in instances when the mayor is unable to serve. Any director may be removed from office by the City Council for cause or at will. In addition, the City approves the programs and expenditures of MEDC and must approve amendments to MEDC's bylaws and Articles of Incorporation. Therefore, these accompanying financial statements are not intended to present fairly the financial position, results of operations and cash flows, where appropriate, for the City of Mission, Texas. These financial statements are included in the comprehensive annual financial report for the City of Mission, Texas as a discretely presented component unit.

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.

The authority to enact the sales and use tax for economic development is Vernon's Ann. Civ.St.Art. 5190.6 4B of the Development Corporation Act of 1979, including subsequent amendments. Under Section 4B, cities may use the funds raised by this sales tax for purposes related to economic development.

These purposes include:

- Purchasing land, building and equipment;
- Facilities including public safety facilities;
- Targeted infrastructure and improvements for the creation or retention of primary jobs that the corporation's board deems suitable for manufacturing and industrial facilities, research and development facilities, transportation facilities, sewage or solid waste disposal facilities;
- Funding other projects found in the Act that are in the best interests of the City. (Refer to Vernon's An. Civ.St.Art. 5160.6(10), 4B (1).)

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the reporting entity. 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 benefit from privileges provided by a given function or segment.

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

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 Project Funds are used to account and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

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.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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

C. Measurement focus and basis of accounting - continued

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

D. Cash and Investments

Cash and cash equivalents are considered to be cash on hand, 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.

The Mission Economic Development Corporation can legally invest in adequately secured investments in accordance with the Public Funds Investment Act. In general, MEDC's investment policy allows the MEDC to invest in certificates of deposit, repurchase agreements, obligations of the U. S. Government and its Agencies or instrumentalities and State obligations.

E. Receivables

Receivables are presented on the balance sheet net of estimated uncollectible amounts. MEDC records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. MEDC recorded an allowance for doubtful accounts of \$0 as of September 30, 2016.

F. 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 position.

G. Restricted Assets

Certain proceeds of long-term debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable debt covenants. The "interest and sinking fund" account is used to segregate resources accumulated for debt service payments over the next twelve months.

MISSION ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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

H. Redevelopment Assets

Governments usually acquire redevelopment property to attract private-sector investment in an economically depressed area. MEDC undertakes and funds various capital projects which will benefit the City. These capital projects, once completed, are conveyed to the City and become part of the City's capital assets. During the construction phase, these assets are considered redevelopment assets of MEDC.

I. Long-Term Obligations

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities net of any related premiums or discounts. Bond premiums and discounts are 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.

J. Outflows and Inflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resources (expense/expenditure) until then. At September 30, 2016 there were no deferred charges.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows or resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At September 30, 2016 there were no deferred revenues.

K. Fund Balance Reporting

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories which include redevelopment assets, and long term portions of receivables. The Corporation has prepaid expenses that are considered nonspendable.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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

K. Fund Balance Reporting – continued

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the Board of Directors in consultation with the City of Mission City Council. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. The MEDC Board has the authority to commit fund balance by board action. The decision is then taken to the City of Mission City Council for final approval.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the Board of Directors in consultation with the City of Mission City Council, or their designee, such as the City Manager.

Board of Directors in consultation with the City of Mission City Council retains the right to change or remove the assignment with majority vote.

- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

L. Order of Expenditure of Funds

When expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the Corporation considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Corporation considers amounts to have been spent first out of committed funds, then assigned funds and finally unassigned funds.

M. Prepaid Items

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

N. Capital Assets

Capital Assets are reported in the government-wide Statement of Net Position. Capital assets are recorded at historical cost and depreciated over their estimated useful lives unless they are inexhaustible, such as land. Depreciation is not recorded on items classified as construction in progress. Depreciation expense is recorded in the government-wide Statement of Activities. Depreciation is recorded using the straight-line method over the estimated useful lives of the capital assets.

MISSION ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Capital Assets – continued

The estimated useful lives are as follows:

Assets	Useful Lives
Buildings and Improvements	30 years
Furniture and equipment	5 - 15 years
Vehicles	2 - 20 years

O. Rounding Adjustments

Throughout this comprehensive annual financial report, dollar amounts are rounded thereby creating differences between the details and the totals.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits - At September 30, 2016, the carrying value and bank balance of the Mission Economic Development Corporation's deposits was \$8,259,874. Deposits include demand accounts, money market and certificate of deposits. At September 30, 2016, all deposits were not fully insured or collateralized. See custodial credit risk below.

Investments - During the year, MEDC's investments consisted of obligations of the U.S. Government or its Agencies and instrumentalities and public funds investment pools.

MEDC is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowed stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies, federally insured certificates of deposit issued by Texas banks or saving and loans and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safekeep, and invest public funds and securities more efficiently and economically.

MISSION ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool operates in a manner consistent with the Security and Exchange Commission’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, MEDC’s investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAA by Standard and Poor’s. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies; MEDC reports its information to the City of Mission Council. Additionally, investment practices of MEDC were in accordance with local policies. The MEDC’s management believes that it complied with the requirements of the PFIA and its adopted investment policies.

Interest Rate Risk –

Interest rate risk is 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, 2016:

Investment Type	Amortized Cost	3 Months or Less	4 to 12 Months	Over One Year
TexPool	\$ 198,914	\$ 198,914	\$ -	\$ -
Federal Natl Mtg Assn Medium Term NTS	502,575	-	-	502,575
Federal Home Ln Mtg Corp Medium Term NTS	250,412	-	-	250,412
Federal Farm CR Bks Cons Systemwide BDS	250,890	-	-	250,890
Southwest Natl Bk Wichita Kans CTF DEP	100,113	-	-	100,113
	<u>\$ 1,302,904</u>	<u>\$ 198,914</u>	<u>\$ -</u>	<u>\$ 1,103,990</u>

Credit Risk –

Credit risk is the risk that the counterparty will not fulfill its obligations.

MISSION ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

MEDC’s investment policy authorizes the following investment 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 the provision 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, 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).

As of September 30, 2016, 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
TexPool	AAA	15%
Federal Natl Mtg Assn Medium Term NTS	AAA	39%
Federal Home Ln Mtg Corp Medium Term NTS	AAA	19%
Federal Farm CR Bks Cons Systemwide BDS	AAA	19%
Southwest Natl Bk Wichita Kans CTF DEP	N/A *	8%

* Certificate of deposit

Concentrations of Credit Risk –

Risk is controlled through portfolio diversification, which shall be achieved limiting investments to those instruments allowed by the Act, avoiding over-concentration of assets in a specific maturity sector, limitation of average maturity of operating funds investments to one year, and avoidance of over-concentration of assets in specific instruments other than U.S. Treasury Securities and Insured or Collateralized Certificates of Deposits. Risk of liquidity due to technical complications shall be controlled by the selection of securities dealers.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

As of September 30, 2016, the following was the composition MEDC's investment portfolio:

Investment Type	Rating
TexPool	AAA
Federal Natl Mtg Assn Medium Term NTS	AAA
Federal Home Ln Mtg Corp Medium Term NTS	AAA
Federal Farm CR Bks Cons Systemwide BDS	AAA
Southwest Natl Bk Wichita Kans CTF DEP	N/A*

* Certificate of deposit

Custodial Credit Risk –

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. Broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act, the MEDC's investment policy, and Government Code Chapter 2257 "Collateral For Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

At September 30, 2016, MEDC had deposits collateralized by pledged securities of \$2,177,490; resulting in uncollateralized deposits of \$6,082,384.

A reconciliation of cash and investments as shown on the statement of net position for MEDC follows:

Petty cash	\$	250
Carrying amount deposit		8,247,540
Investments		1,302,904
Cash and investments statement of net position	\$	9,550,694
Cash and cash equivalents	\$	1,525,951
Investments		1,302,904
Restricted assets		6,721,839
Cash and investments statement of net position	\$	9,550,694

MISSION ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Transfers:

Transfers out	Transfers In	
	Debt Service	
	Fund	Total
General fund	\$ 1,171,959	\$ 1,171,959
Capital projects fund	25,933	25,933
Total transfers out	\$ 1,197,892	\$ 1,197,892

Transfers out of the general fund to the debt service fund were sales tax collections to cover debt service requirements that came due within the fiscal year. Transfers out of the capital projects fund to the debt service funds were restricted funds used to cover debt service requirements associated with capital projects.

NOTE 4 - RESTRICTED ASSETS

Restricted assets held by Mission Economic Development Corporation at September 30, 2016 consist of the following:

	Cash and Cash	Investments	Accrued	Total
	Equivalents		Interest	
Debt service fund	\$ 252,465	\$ -	\$ -	\$ 252,465
Capital projects fund	6,469,374	-	-	6,469,374
	\$ 6,721,839	\$ -	\$ -	\$ 6,721,839

NOTE 5 – CAPITAL ASSETS

Capital Asset activity for the year ended September 30, 2016, was as follows:

	Balance at			Balance at
	10/1/15	Increases	Decreases	9/30/16
Capital assets, being depreciated:				
Machinery and equipment	\$ 27,063	\$ 656,359	\$(3,769)	\$ 679,653
Building	-	9,268,541	-	9,268,541
Total capital assets, being depreciated	27,063	9,924,900	(3,769)	9,948,194
Less accumulated depreciation for:				
Machinery and equipment	(12,980)	(23,374)	(1,928)	(34,426)
Building	-	(135,166)	-	(135,166)
Total accumulated depreciation	(12,980)	(158,540)	(1,928)	(169,592)
Total capital assets, being depreciated, net	\$ 14,083	\$ 9,766,360	\$(5,697)	\$ 9,778,602

Depreciation expense charged to governmental activities totaled \$158,540 for the year ended September 30, 2016.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 6 – REDEVELOPMENT ASSETS

In accordance with its Strategic Plan, the Corporation has established the Mission Corridors Fund which allows MEDC to set aside \$1 million to be used specifically on the Shary Road and Anzalduas International Corridor (Bryan Road). In the current year, \$71,255 was expended for these projects. MEDC also funded other infrastructure projects including sanitary sewer and paving projects throughout the City.

The amount expended in the current year was \$37,500 for the Conway and KiKa Loop Paving Project and \$93,926 for the Wal-Mart access road project.

When these construction projects are completed, the redeveloped assets will be transferred to the City of Mission. During FY 2016, \$168,926 in completed projects was conveyed to City of Mission or Texas Department of Transportation.

	October 1, 2015	Increases	Decreases	September 30, 2016
Redevelopment Asset: \$	76,911	\$202,681	\$168,926	\$ 110,666

NOTE 7 - 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 bond payable at September 30, 2016 for the MEDC is comprised of the following:

\$4,380,000 - Sales Tax Revenue Refunding Bonds, Series 2010 due in annual principal installments ranging from \$90,000 to \$325,000 from January 15, 2011 through 2024; interest at 3.85%.	\$ 2,730,000
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The annual requirements to retire the sales tax revenue bond including interest are as follows:

Year Ending September 30,	Principal	Interest	Total
2017	\$ 350,000	\$ 98,368	\$ 448,368
2018	365,000	84,604	449,604
2019	380,000	70,263	450,263
2020	395,000	55,344	450,344
2021 - 2024	1,240,000	97,405	1,337,405
	\$ 2,730,000	\$ 405,984	\$ 3,135,984

MISSION ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 7 - LONG-TERM DEBT PAYABLE (Continued)

Sales tax revenue notes payable at September 30, 2016 for the MEDC is comprised of the following:

\$6,000,000 - Sales and Use Tax Revenue Note, Series 2016-A due in semi-annual installments of \$300,000 including interest at 2.85%. Note matures August 1, 2036. Note is collateralized by sales tax revenues collected.	\$ 6,000,000
\$2,000,000 - Sales and Use Tax Revenue Note, due in monthly installments of \$20,105, including interest at 3.795%. Note matures on December 1, 2021. Not is collateralized by sales tax revenues collected.	<u>2,000,000</u>
	<u>\$ 8,000,000</u>

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

Year Ending September 30,	Principal	Interest	Total
2017	\$ 424,775	\$ 234,478	\$ 659,253
2018	472,128	231,577	703,705
2019	478,869	216,286	695,155
2020	485,718	200,887	686,605
2021 - 2024	<u>6,138,510</u>	<u>2,465,293</u>	<u>8,603,803</u>
	<u>\$ 8,000,000</u>	<u>\$ 3,348,521</u>	<u>\$ 11,348,521</u>

The following is a summary of changes in long-term debt obligations for MEDC for the year ended September 30, 2016:

	Septmeber 30, 2015	Additional Obligations and Net Increases	Retirements and Net Decreases	September 30, 2016	Due Within One Year
Bonds and notes:					
Sales Tax Refunding Bond	\$ 3,065,000	\$ -	\$ 335,000	\$ 2,730,000	\$ 350,000
Sales Tax Refunding-FNB	701,535	-	701,535	-	-
Sales Tax Revenue Note - LSNB	-	2,000,000	-	2,000,000	124,775
Sales Tax Revenue Note - Frost	-	6,000,000	-	6,000,000	300,000
Total bonds and notes	<u>3,766,535</u>	<u>8,000,000</u>	<u>1,036,535</u>	<u>10,730,000</u>	<u>774,775</u>
Other Liabilities:					
Capital leases	-	9,268,541	119,010	9,149,531	318,273
Total other liabilities	<u>-</u>	<u>9,268,541</u>	<u>119,010</u>	<u>9,149,531</u>	<u>318,273</u>
Total long-term debt obligations	<u>\$ 3,766,535</u>	<u>\$ 17,268,541</u>	<u>\$ 1,155,545</u>	<u>\$ 19,879,531</u>	<u>\$ 1,093,048</u>

The above listed refunding bond issue is to be repaid from the 1/2 cent sales tax levied under the Section 4B referred to in Note 1(A).

MISSION ECONOMIC DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 8 – 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 10 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:

	<u>Balance at September 30, 2016</u>
\$2,500,000 Mission Economic Development Corporation Industrial Development Revenue Bond (AmeriTex Pipe & Products, LLC Project), Series 2016A	\$ 2,356,440
\$7,500,000 Mission Economic Development Corporation Industrial Development Revenue Bond (AmeriTex Pipe & Products, LLC Project), Series 2016B	7,500,000
\$6,000,000 Mission Economic Development Corporation Variable Rate Demand Industrial Development Revenue Bonds (CMI Project) Series 2007	4,580,000
\$40,200,000 Mission Economic Development Corporation Solid Waste Disposal Revenue Bonds (Dallas Clean Energy McCommas Bluff Project) Series 2011	30,210,000
\$48,000,000 Mission Economic Development Corporation Water Supply Revenue Bonds (Enviro Water Minerals Project), Series 2015 (Green Bonds)	48,000,000
\$24,000,000 Mission Economic Development Corporation Variable Rate Demand Solid Waste Disposal Revenue Bonds (IESI TX Corp. Project) Series 2007	24,000,000
\$50,000,000 Mission Economic Development Corporation Senior Lien Revenue Bonds (Natgasoline Project) Series 2016A	50,000,000
\$202,885,000 Mission Economic Development Corporation Senior Lien Revenue Bonds (Natgasoline Project) Series 2016B	202,885,000
\$9,000,000 Mission Economic Development Corporation Taxable Power Purchase Agreement Revenue Bonds (Nelson Gardens Energy, LLC Project) Series 2013	8,960,000

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 8 – CONDUIT DEBT OBLIGATIONS (Continued)

	<u>Balance at September 30, 2016</u>
\$56,200,000 Mission Economic Development Corporation Solid Waste Disposal Revenue Bonds (Allied Waste North America, Inc. Project) Series 2008A	56,200,000
\$56,800,000 Mission Economic Development Corporation Solid Waste Disposal Revenue Refunding Bonds (Republic Services, Inc. Project) Series 2012	56,800,000
\$41,750,000 Mission Economic Development Corporation Solid Waste Disposal Revenue Refunding Bonds (Waste Management, Inc. Project) Series 2006	41,750,000
\$67,000,000 Mission Economic Development Corporation Solid Waste Disposal Revenue Bonds (Waste Management, Inc. Project) Series 2008	<u>67,000,000</u>
	<u><u>\$ 600,241,440</u></u>

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, 2016, MEDC received \$2,500 of which \$1,250 was paid to the advisors.

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, 2016, MEDC received \$1,043,152 of which \$521,576 was paid to the advisor for local access fees.

In total, MEDC collected \$1,045,652 in fees related to conduit debt of which \$522,826 was paid to its advisors for application, issuance, advisor and local access fees.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 9 – 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 and there were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

NOTE 10 – OPERATING LEASE COMMITMENT

MEDC leased office space under an operating lease agreement with monthly payments of \$1,373 for 12 months. The lease term ended on April 30, 2016 and the lease was not renewed.

NOTE 11 – CAPITAL LEASE COMMITMENT

MEDC leases a 55,000 square foot facility under a lease agreement classified as a capital lease. The facility is used as the Center for Education and Economic Development (CEED). The lease has been recorded at the present value of their future minimum lease payments totaling \$9,268,541 at the inception date. Depreciation expense for the building totaled \$135,166 for the year ended September 30, 2016. The building and related depreciation is included in Note 5.

The future minimum lease obligations and the net present value of the minimum lease payments as of September 30, 2016, were as follows:

<u>September 30,</u>		
2017	\$	660,000
2018		660,000
2019		660,000
2020		660,000
2021		660,000
Thereafter		<u>9,707,500</u>
Total minimum lease payments		13,007,500
	Less: interest	<u>(3,857,969)</u>
Present value of minimum lease payments	\$	<u><u>9,149,531</u></u>

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 12 – FUND BALANCE CLASSIFICATION

The following table summarizes the fund balance classification at year-end:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Fund balance:				
Nonspendable				
Redevelopment assets	\$ 110,666	\$ -	\$ -	\$ 110,666
Prepaid	10,244			10,244
Restricted				
Capital projects			6,468,526	6,468,526
Debt service		252,465		252,465
Committed	4,337,565			4,337,565
Unassigned	(937,457)			(937,457)
Total fund balances	<u>\$ 3,521,018</u>	<u>\$ 252,465</u>	<u>\$ 6,468,526</u>	<u>\$ 10,242,009</u>

NOTE 13 – RELATED PARTY TRANSACTIONS

The City’s economic development activities via City Council Resolution has delegated all economic development activities to MEDC.

City of Mission provides personnel services to carry out the daily operating activities of MEDC. MEDC does not reimburse the City of Mission for the services provided as well as accounting and overhead costs.

The President of the board of directors for MEDC is also the President of Lone Star National Bank. During the year ended September 30, 2016, MEDC obtained a \$2,000,000 note from Lone Star National Bank.

NOTE 14 – COMMITMENTS

The Corporation has published notices of intent and its Board of Directors has committed funds for the following projects:

<u>Incentives</u>	<u>Committed</u>	<u>Expended to Date</u>	<u>Remaining Commitment</u>
Royal Technology	\$ 1,300,000	\$ 900,000	\$ 400,000
Southwest Steel Coil	450,000	-	450,000
Wonderful Citrus	3,000,000	300,000	2,700,000
Metal Processing International	55,000	-	55,000
Other Infrastructure Projects	330,000	39,410	290,590
Infrastructure Projects**	1,000,000	558,025	441,975
	<u>\$ 6,135,000</u>	<u>\$ 1,797,435</u>	<u>\$ 4,337,565</u>

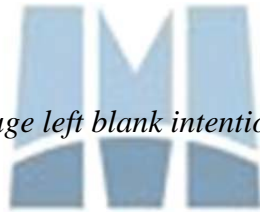
** \$1,000,000 is for Shary Road and Anzalduas International Corridor (Bryan Road) projects only.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 15 – SUBSEQUENT EVENTS

MEDC has evaluated all events or transactions that occurred after September 30, 2016 through February 9, 2017, the date these financial statements were available to be issued.

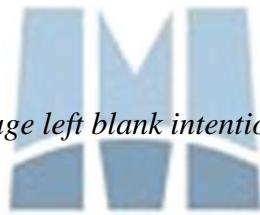
On October 9, 2016, MEDC purchased 19 acres of land adjacent to the future site of the City of Mission Event Center. The land was purchased for \$5,523,909 and is intended to be sold to retailers that will compliment the event center.



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*REQUIRED
SUPPLEMENTARY
INFORMATION*

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MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual Budget Basis	Variance
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes:				
Sales tax	\$3,912,500	\$3,912,500	\$3,792,009	\$ (120,491)
Total Taxes	<u>3,912,500</u>	<u>3,912,500</u>	<u>3,792,009</u>	<u>(120,491)</u>
Interest:				
Interest earned on investments	8,000	8,000	11,857	3,857
Interest earned on demand deposit	1,000	1,000	1,058	58
Total Interest	<u>9,000</u>	<u>9,000</u>	<u>12,915</u>	<u>3,915</u>
Miscellaneous:				
Application Fees-Ind. Dev. Bonds	-	-	1,250	1,250
Annual Filing Fee-Ind. Dev. Bonds	75,000	75,000	521,576	446,576
Rent-MRA	-	-	6,500	6,500
Misc. Income	-	-	50,046	50,046
Total Miscellaneous	<u>75,000</u>	<u>75,000</u>	<u>579,372</u>	<u>504,372</u>
Total Revenues	<u>3,996,500</u>	<u>3,996,500</u>	<u>4,384,296</u>	<u>387,796</u>
Expenditures:				
Current:				
Economic Development:				
Administration:				
Personal services	341,238	478,171	423,737	54,434
Employee benefits	90,256	123,143	106,567	16,576
Professional and technical services	97,500	127,500	101,909	25,591
Purchased property services	33,000	323,000	45,236	277,764
Other purchased services	42,100	52,100	44,756	7,344
Supplies	4,150	4,650	4,347	303
Capital outlays	5,000	5,000	9,270,155	(9,265,155)
Community promotions	70,000	95,000	89,202	5,798
Miscellaneous	116,500	91,000	40,643	50,357
	<u>799,744</u>	<u>1,299,564</u>	<u>10,126,552</u>	<u>(8,826,988)</u>

EXHIBIT B-1(Continued)

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
GENERAL FUND BUDGETARY COMPARISON SCHEDULE - Continued
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final	Budget Basis	Final Budget Positive (Negative)
Development:				
Professional and technical services	75,000	75,000	13,675	61,325
Other purchased services	215,000	215,000	153,978	61,022
Supplies	10,000	10,000	5,749	4,251
Miscellaneous	82,000	82,000	54,649	27,351
Projects	2,070,621	2,064,121	1,387,645	676,476
Incentives	1,232,500	1,250,000	613,728	636,272
	<u>3,685,121</u>	<u>3,696,121</u>	<u>2,229,424</u>	<u>1,466,697</u>
Debt Service:				
Principal retirement	-	-	119,010	(119,010)
Interest	-	-	73,490	(73,490)
	<u>-</u>	<u>-</u>	<u>192,500</u>	<u>(192,500)</u>
 Total Expenditures	 <u>4,484,865</u>	 <u>4,995,685</u>	 <u>12,548,476</u>	 <u>(7,552,791)</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>(488,365)</u>	 <u>(999,185)</u>	 <u>(8,164,180)</u>	 <u>(7,164,995)</u>
Other Financing Sources (Uses):				
Capital lease agreements	-	-	9,268,541	9,268,541
Operating transfers out	(1,171,959)	(1,171,959)	(1,171,959)	-
Total Other Financing Sources (Uses)	<u>(1,171,959)</u>	<u>(1,171,959)</u>	<u>8,096,582</u>	<u>9,268,541</u>
 Net Change in Fund Balance	 (1,660,324)	 (2,171,144)	 (67,598)	 2,103,546
 Fund Balance at Beginning of Year	 <u>3,588,615</u>	 <u>3,588,615</u>	 <u>3,588,615</u>	 <u>-</u>
 Fund Balance at End of Year	 <u>\$ 1,928,291</u>	 <u>\$ 1,417,471</u>	 <u>\$ 3,521,017</u>	 <u>\$ 2,103,546</u>

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2016

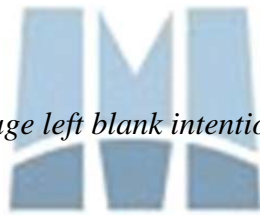
The Board of Directors prepares a budget each year which is then submitted to the City Manager of the City of Mission, Texas. The budget of the MEDC is incorporated into the budget process for the City of Mission, Texas which is described below. The City follows these procedures in establishing the budgetary 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.

The Board of Directors approves the MEDC budget through a resolution before it is presented to City Council for final approval. Any amendments to the budget must also be approved by the Board of Directors before the amendment goes to City Council for final approval.

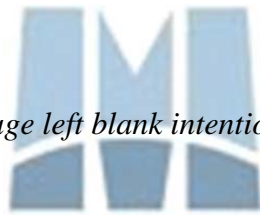
Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental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

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*OTHER
SUPPLEMENTARY
INFORMATION*

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MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Interest earned on investments	\$ 40	\$ 40	\$ -	\$ (40)
Interest earned on demand deposit	500	500	1,026	526
Total Revenues	<u>540</u>	<u>540</u>	<u>1,026</u>	<u>486</u>
Expenditures:				
Current:				
Debt Service:				
Principal retirement	1,036,535	1,036,535	1,036,535	-
Interest and fiscal agent charges	<u>135,424</u>	<u>245,424</u>	<u>159,644</u>	<u>85,780</u>
Total Debt Service	<u>1,171,959</u>	<u>1,281,959</u>	<u>1,196,179</u>	<u>85,780</u>
Total Expenditures	<u>1,171,959</u>	<u>1,281,959</u>	<u>1,196,179</u>	<u>85,780</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,171,419)</u>	<u>(1,281,419)</u>	<u>(1,195,153)</u>	<u>86,266</u>
Other Financing Sources (Uses):				
Operating transfers	<u>1,171,959</u>	<u>1,281,959</u>	<u>1,197,891</u>	<u>(84,068)</u>
Total Other Financing Sources (Uses)	<u>1,171,959</u>	<u>1,281,959</u>	<u>1,197,891</u>	<u>(84,068)</u>
Net Change in Fund Balance	540	540	2,738	2,198
Fund Balance at Beginning of Year	<u>249,727</u>	<u>249,727</u>	<u>249,727</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 250,267</u>	<u>\$ 250,267</u>	<u>\$ 252,465</u>	<u>\$ 2,198</u>

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest earned on demand deposit	\$ -	\$ -	\$ 254	\$ 254
Total Revenues	-	-	254	254
Expenditures:				
Supplies	-	50,000	2,981	47,019
Capital outlays	-	7,840,000	1,487,049	6,352,951
Debt service	-	-	15,500	(15,500)
Miscellaneous	-	-	266	(266)
Total Expenditures	-	7,890,000	1,505,796	6,384,204
Excess (Deficiency) of Revenues Over Expenditures	-	(7,890,000)	(1,505,542)	6,384,458
Other Financing Sources (Uses):				
Issuance of debt	-	8,000,000	8,000,000	-
Operating transfers	-	(110,000)	(25,933)	84,067
Total Other Financing Sources (Uses)	-	7,890,000	7,974,067	84,067
Net Change in Fund Balance	-	-	6,468,525	6,468,525
Fund Balance at Beginning of Year	-	-	-	-
Fund Balance at End of Year	\$ -	\$ -	\$ 6,468,525	\$ 6,468,525

COMPLIANCE



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund, of Mission Economic Development Corporation, a component unit of the City of Mission, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Mission Economic Development Corporation's basic financial statements, and have issued our report thereon dated February 9, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the management letter dated February 9, 2017.

Compliance and Other Matters

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

Purpose of this Report

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

Burton McArthur & Co., LLP

McAllen, Texas
February 9, 2017