



*Mission Economic
Development
Corporation*



*Financial Statements and Independent
Auditor's Report
September 30, 2012*

City of Mission, Texas

**MISSION ECONOMIC
DEVELOPMENT
CORPORATION**

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

SEPTEMBER 30, 2012

MEMBER BOARD OF DIRECTORS

YEAR ENDED SEPTEMBER 30, 2012

President	Catherine Garcia
Vice President	Polo De Leon
Secretary	S. David Deanda, Jr.
Treasurer	Ricardo Martinez
Director	Mayor Norberto Salinas
Director	Linda Requénez
Director	Jody Tittle

MISSION ECONOMIC DEVELOPMENT CORPORATION

Year Ended September 30, 2012

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MISSION ECONOMIC DEVELOPMENT CORPORATION

Year Ended September 30, 2012

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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 Mission Economic Development Corporation, a component unit of the City of Mission, Texas as of and for the year ended September 30, 2012, which collectively comprise Mission Economic Development Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 Mission Economic Development Corporation, a component unit of the City of Mission, Texas, as of September 30, 2012, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013, 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) and the budgetary comparison information listed as required supplementary information in the table of contents 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The other supplementary information section, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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 16, 2013

Mission Economic Development Corporation

Management's Discussion and Analysis

September 30, 2012

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, 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and disclosure following this section.

Financial Highlights

- The liabilities of MEDC exceeded assets at the close of the most recent fiscal year by \$2,835,324 (net assets).
- The net asset deficit is due to the fact that MEDC does not hold any capital assets such as infrastructure and improvements in its' name, but rather provides funding for City of Mission projects.

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

The statement of activities presents information showing how the government's net assets are 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 operating grants and contributions.

The government-wide financial statements can be found on pages 13-14 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 two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund.

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 15-18 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 19 of this report.

Other information. A budgetary comparison schedule is included as Required Supplementary Information (RSI) for the General Fund on page 37. Budgetary comparison schedule for the Debt Service Fund is provided as other supplementary information on page 43.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of MEDC, liabilities exceeded assets by \$2,835,324 at the close of the fiscal year. Compared to prior year, the net assets deficit decreased by \$630,437 or 18 percent.

Mission Economic Development Corporation Net Assets September 30, 2012

	Governmental Activities	
	2012	2011
	<u> </u>	<u> </u>
Current and other assets	\$ 3,948,188	\$ 3,671,909
Capital Assets	15,201	13,432
Total assets	<u>3,963,389</u>	<u>3,685,341</u>
Long-term liabilities	5,749,025	6,681,860
Other liabilities	1,049,689	469,242
Total liabilities	<u>6,798,714</u>	<u>7,151,102</u>
Net Assets:		
Invested in capital assets,	15,201	13,432
Restricted	494,577	490,267
Unrestricted(deficit)	<u>(3,345,102)</u>	<u>(3,969,460)</u>
Total net assets	<u>\$ (2,835,324)</u>	<u>\$ (3,465,761)</u>

At the end of the current fiscal year, MEDC is unable to report a positive balance in unrestricted net assets. The net asset 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 assets are restricted for the purpose of debt service and invested in capital assets.

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

Mission Economic Development Corporation
Changes in Net Assets
September 30, 2012

	Governmental Activities	
	2012	2011
Revenues:		
Program Revenues:		
Operating grants and contributions	\$ 184,967	\$ 163,460
Capital grants and contributions	-	198
General revenues:		
Other taxes	3,619,078	3,411,495
Interest	7,325	4,789
Miscellaneous	4,407	-
Total revenues	3,815,777	3,579,942
Expenses:		
Economic development	2,917,970	1,933,636
Culture and recreation	-	2,859,344
Interest on long-term debt	267,370	392,162
Total expenses	3,185,340	5,185,142
Changes in net assets	630,437	(1,605,200)
Net assets-beginning	(3,465,761)	(1,860,561)
Net assets-ending	\$ (2,835,324)	\$ (3,465,761)

Governmental activities. Governmental activities for the fiscal year increased MEDC's net assets by \$630,437 decreasing the deficit net assets from prior year.

Total revenues reflect an increase of 6.5% compared to last year. Operating grants and contributions reflected a 13% increase and sales tax increased by 6%.

Expenses reflected a decrease of 38.5% compared to prior year. The majority of the decrease is reflected in culture and recreation. MEDC conveyed \$2,859,344 to the City of Mission in infrastructure. Economic development had an increase of 51% due to a one million dollar settlement with the Mission Economic Development Authority (MEDA) at the end of the fiscal year.

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 \$3,805,222 an increase of \$237,784 in comparison with the prior year. \$1,945,312 constitutes unassigned fund balance for all governmental funds, which is available for spending at MEDC discretion. In accordance with GASB No. 54, \$126,043 of total fund balance is considered nonspendable for prepaid and redevelopment assets; \$527,191, is restricted for debt service; and \$1,206,676 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 \$1,945,312 and total fund balance of the general fund was \$3,278,031. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance was 68% lower than expenditures; however, total fund balance exceeded expenditures by 12%.

During the current fiscal year, the MEDC general fund balance increased by \$235,388 or 7%. The key components and factors in the increase are as follows:

- Sales tax revenues reflected an increase of \$207,583 or 6 percent compared to prior year. The sales tax revenue increase is a result of the Mission's Chamber of Commerce "Shop Mission First" campaign. In addition, many Mexican residents are moving into the Mission/McAllen area due to the increasing violence in the Mexican border towns. Several of these new residents have invested in Mission and opened businesses, which also help increase the sales tax revenue.
- Transfers-out to Debt service increased by \$216,112 or 48% compared to prior year. The increase fulfills the full debt requirement needed in the debt service for the fiscal year.

The Debt Service Fund has a total fund balance of \$527,191, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$2,396.

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 \$3,097,833 during the year.

The original revenue budget was not amended in FY 2012.

- Actual revenues exceed final budget by \$304,177. The majority of the increase is attributed to a 6 percent increase in sales tax and closing fees of \$106,000 received from Republic Services for refunding the 2007 MEDC Solid Waste Disposal Revenue Bond with the 2012 Solid Waste Disposal Revenue Refunding Bond. MEDC also received \$75,870 annual fees from conduit debt issued in prior years.

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

- The administration department budget was amended by \$1,022,500 for settlement of a lawsuit with the Mission Economic Development Authority, which was settled in August 2012. The actual expenditures; however, were \$236,348 less than final budget.
- The Development had the most significant increase from original to final budget due to several projects undertaken including infrastructure projects along Bryan, Inspiration and Shary Road. Actual expenditures; however, were \$1,643,814 lower than the final budget. The remaining project balances of \$1,206,676 will be carried over to Fiscal Year 2013.

Capital Asset and Debt Administration

Long-term debt. At the end of the current fiscal year, MEDC had total long-term debt outstanding of \$6,681,860.

Mission Economic Development Corporation Outstanding Sales Tax Revenue Bonds September 30, 2012

	Governmental Activities		
	2012	2011	2010
Subordinate Lien Sales Tax			
Revenue Bonds 1995 & 1999 Issues	\$ -	\$ -	\$ 4,445,000
Sales Tax Refunding Bonds Series 2010	4,005,000	4,290,000	-
2009 FNB Loan	2,676,860	2,785,974	2,891,183
Total	<u>\$ 6,681,860</u>	<u>\$ 7,075,974</u>	<u>\$ 7,336,183</u>

As of September 30, 2012, MEDC had no authorized but unissued bonds. Additional information on MEDC's long-term debt can be found on pages 29-30 of this report.

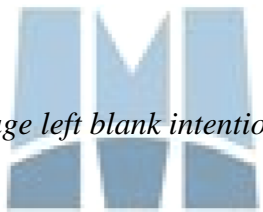
Economic Factors and Next Year's Budget

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 October 30, 2012 was 7.7 percent, which represents a decrease compared to 10.2 percent from prior year. The state and national average unemployment rates are at 6.3 percent and 7.5 percent respectively.
- The 2013 General Fund operating budget was prepared using \$2,997,422 as the estimated restricted fund balance at September 30, 2012. The actual fund balance for the general fund was \$3,278,031; nevertheless, a \$2,194,452 fund balance is projected at September 30, 2013.

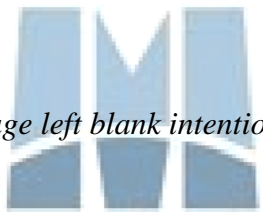
Requests for Information

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

STATEMENT OF NET ASSETS

September 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 945,934
Investments	1,697,984
Restricted Assets	527,191
Receivables, net	590,007
Due from primary government	2,302
Prepaid	2,719
Redevelopment asset	123,324
Deferred charges	58,727
Capital assets, net of accumulated depreciation	
Machinery and equipment	15,201
Total Assets	<u>3,963,389</u>
LIABILITIES	
Accounts payable	77,062
Accrued interest payable from restricted assets	32,614
Accrued wages payable	7,178
Noncurrent liabilities	
Due within one year	932,835
Due in more than one year	5,749,025
Total Liabilities	<u>6,798,714</u>
NET ASSETS	
Investment in capital assets	15,201
Restricted for:	
Debt service	494,577
Unrestricted	<u>(3,345,102)</u>
Total Net Assets	<u>\$ (2,835,324)</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

		<u>Program Revenues</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>
Functions/Programs	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
COMPONENT UNIT:			
Governmental activities:			
Economic development	\$ 2,917,970	\$ 184,370	\$ (2,733,600)
Interest and fiscal charges on long-term debt	267,370	597	(266,773)
Total Governmental Activities	<u>3,185,340</u>	<u>184,967</u>	<u>(3,000,373)</u>
Total Component Unit	<u>\$ 3,185,340</u>	<u>\$ 184,967</u>	<u>(3,000,373)</u>
General Revenues:			
			3,619,078
			7,325
			4,407
			<u>3,630,810</u>
			630,437
			<u>(3,465,761)</u>
			<u>\$ (2,835,324)</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION

BALANCE SHEET-GOVERNMENTAL FUNDS

September 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 945,934	\$ 410,490	\$ 1,356,424
Investments	1,697,985	116,664	1,814,649
Receivables:			
Sales Tax	583,832	-	583,832
Accounts-other	1,989	-	1,989
Due from primary government	2,302	-	2,302
Accrued interest receivable	4,186	37	4,223
Prepaid	2,719	-	2,719
Redevelopment assets	123,324	-	123,324
Total Assets	<u>\$ 3,362,271</u>	<u>\$ 527,191</u>	<u>\$ 3,889,462</u>
LIABILITIES			
Accounts payable	\$ 77,062	\$ -	\$ 77,062
Accrued wages payable	7,178	-	7,178
Total Liabilities	<u>84,240</u>	<u>-</u>	<u>84,240</u>
FUND BALANCES			
Nonspendable	126,043	-	126,043
Restricted for debt	-	527,191	527,191
Committed	1,206,676	-	1,206,676
Unassigned	1,945,312	-	1,945,312
Total Fund Balances	<u>3,278,031</u>	<u>527,191</u>	<u>3,805,222</u>
Total Liabilities and Fund Balances	<u>\$ 3,362,271</u>	<u>\$ 527,191</u>	<u>\$ 3,889,462</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2012

Total fund balances - governmental funds balance sheet	\$	3,805,222
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not reported in the funds.		15,201
Payables for bond principal which are not due in the current period are not reported in funds.		(6,681,860)
Payables for bond interest which are not due in the current period are not reported in funds.		(32,614)
Unamortized issuance cost unavailable for current-period expenditures and are deferred in the SNA.		58,727
Net assets of governmental activities - statements of net assets	<u>\$</u>	<u>(2,835,324)</u>

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, 2012

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 3,619,078	\$ -	\$ 3,619,078
Interest	7,325	597	7,922
Miscellaneous	189,398	-	189,398
Total Revenues	<u>3,815,801</u>	<u>597</u>	<u>3,816,398</u>
Expenditures:			
Current:			
General Government:			
Economic development	2,915,216	-	2,915,216
Debt service:			
Principal	-	394,114	394,114
Interest and fiscal charges	-	269,285	269,285
Total expenditures	<u>2,915,216</u>	<u>663,399</u>	<u>3,578,615</u>
Excess (Deficiency) of Revenue over Expenditures	<u>900,585</u>	<u>(662,803)</u>	<u>237,783</u>
Other Financing Sources (Uses):			
Operating transfers	(665,198)	665,198	-
Total Other Financing Sources (Uses)	<u>(665,198)</u>	<u>665,198</u>	<u>-</u>
Net change in fund balances	<u>235,387</u>	<u>2,395</u>	<u>237,783</u>
Fund Balances at Beginning of Year	<u>3,042,643</u>	<u>524,796</u>	<u>3,567,439</u>
Fund Balances at End of Year	<u>\$ 3,278,030</u>	<u>\$ 527,191</u>	<u>\$ 3,805,222</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended September 30, 2012

Net change in fund balances - total governmental funds	\$	237,783
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.		5,128
The depreciation of capital assets used in governmental activities is not reported in the funds.		(2,738)
Loss on removal of an asset lost during the fiscal year but not fully depreciated.		(621)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		394,114
Bond issuance costs and similar items are amortized in the SOA but not in the funds		(5,144)
(Increase) decrease in accrued interest payable from beginning of period to end of period		1,915
Change in net assets of governmental activities - statement of activities	\$	630,437

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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 a discretely presented component unit of the City and 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 and that the corporation's board deems suitable for manufacturing and industrial facilities, research and development facilities, transportation facilities, sewage or solid waste disposal facilities

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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

- Funding other projects found in the Act that are in the best interest of the City. (Refer to Vernon's An. Civ.St.Art. 5160.6(10), 4B (1).)

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.

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.

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

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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

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.

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, this policy allows the City to invest in certificates of deposit, repurchase agreements, obligations of the U. S. Government and its Agencies or instrumentalities and State obligations.

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 long-term debt, 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 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
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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

G. 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.

H. 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 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.

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.
- 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

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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

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.

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 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.

I. Prepaid Items

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

J. Capital Assets

Capital Assets are reported in the government-wide Statement of Net Assets. 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 estimate useful lives of the capital assets.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits - At September 30, 2012, the carrying value of the Mission Economic Development Corporation's deposits was \$1,356,172 and the bank balance was \$1,356,172. 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, 2012.

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS *(Continued)*

Investment Accounting Policy

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.

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 Board. Additionally, investment practices of MEDC were in accordance with local policies.

The Act determines the types of investments, which are allowable for MEDC. These include, with certain restriction, (1) obligations of the U.S. Treasury, certain U.S. agencies, the State of Texas, (2) certificate of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The City of Mission's investment policy, which is followed by MEDC, authorizes all the State allowable investments.

Investment Policy

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 rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or its equivalent.

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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 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, 2012:

Investment Type	Amortized Cost	Maturity Period	
		3 Months or Less	4-12 Months
Texpool	\$ 197,959	\$ 197,959	\$ -
Texpool	116,664	116,664	-
	\$ 314,623	\$ 314,623	\$ -

Public Funds Investment Pools

MEDC’s investment policy authorizes the following pools:

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 authorization short-term, fully-collateralized investments, including direct obligations of,

MISSION ECONOMIC DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Public Funds Investment Pools (Continued)

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 and paced 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.

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 assets 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.

Credit Risk –

MEDC’s investment policies and types of investments are governed by the Public Funds Investments Act (PFIA).

As of September 30, 2012, 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		
<u>Investment Type</u>	<u>Rating</u>	<u>Exposure</u>
Texpool	AAA	100%

MISSION ECONOMIC DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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

Petty Cash	\$	250
Carrying amount deposit		1,356,174
Investments		1,814,685
Less accrued interest		(37)
Cash and Investments Statement of Net Assets	\$	3,171,072
Cash and cash equivalents	\$	945,934
Investments		1,697,984
Restricted Assets		527,191
Less accrued interest		(37)
Cash and Investments Statement of Net Assets	\$	3,171,072

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.

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.

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Transfers:

	Transfers In	
	Debt Service Fund	Total
Transfer Out:		
General Fund	\$ 665,198	\$ 665,198
Total Transfer Out	\$ 665,198	\$ 665,198

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.

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 - RESTRICTED ASSETS

Restricted assets held by Mission Economic Development Corporation at September 30, 2012 consist of the following:

	Cash and Cash Equivalents	Investments	Accrued Interest	Total
Debt Service Fund	\$ 410,490	\$ 116,664	\$ 37	\$ 527,191

NOTE 5 – CAPITAL ASSETS

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

	Balance at October 1, 2011	Increases	Decreases	Balance at September 30, 2012
Capital assets, being depreciated:				
Machinery and equipment	\$ 14,050	\$ 5,128	\$ (630)	\$ 18,548
Total capital assets, being depreciated	14,050	5,128	(630)	18,548
Less accumulated depreciation for:				
Machinery and equipment	(618)	(2,729)	-	(3,347)
Total accumulated depreciation	(618)	(2,729)	-	(3,347)
Total capital assets, being depreciated, net	\$ 13,432	\$ 2,399	\$ (630)	\$ 15,201

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, \$113,801 was expended for these projects. MEDC also funded other infrastructure projects including sanitary sewer and paving projects. Amount

The amount expended in the current year was \$9,523 for the sanitary sewer project.

When these construction projects are completed, the redeveloped asset will be transferred to the City of Mission.

	Balance at October 1, 2011	Increases	Decreases	Balance at September 30, 2012
Redevelopment Assets	\$ -	\$ 123,324	\$ -	\$ 123,324

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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, 2012 for the MEDC is comprised of the following:

\$4,380,000 Sales Tax Revenue Refunding Bonds, Series 2010
due in annual installments ranging from \$90,000 to \$325,000
from February 15, 2011 through 2024; Interest at 3.85%. \$ 4,005,000

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

Year Ending September 30,	Principal	Interest
2013	\$ 300,000	\$ 148,418
2014	315,000	136,488
2015	325,000	124,259
2016	335,000	111,554
2017	350,000	98,368
2018-2022	1,740,000	283,052
2023-2024	640,000	24,832
Total	<u>\$ 4,005,000</u>	<u>\$ 926,971</u>

Sales tax revenue notes payable at September 30, 2012 for the MEDC is comprised of the following:

\$3,000,000 Sales Tax Revenue Note due in semi-annual
Installments ranging from \$109,259 to \$366,273 including
Interest at 3.9%. Note matures August 15, 2016. Collateralized
by first priority perfected security interest in sales tax
revenues collected pursuant to Section 4B of the
Development Corporation Act of 1979. \$ 2,676,860

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

Year Ending September 30,	Principal	Interest
2013	\$ 632,835	\$ 99,712
2014	658,105	74,441
2015	684,385	48,161
2016	701,535	20,870
Total	<u>\$ 2,676,860</u>	<u>\$ 243,184</u>

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 7 - LONG-TERM DEBT PAYABLE (Continued)

The following is a summary of changes in long-term debt obligations for MEDC for the year ended September 30, 2012:

	September 30, 2011	Additional Obligations and Net Increases	Retirements and Net Decreases	September 30, 2012	Due within One Year
Sales Tax Revenue Note	\$ 2,785,974	\$ -	\$ 109,114	\$ 2,676,860	\$ 632,834
Sales Tax Refunding Bond	4,290,000	-	285,000	4,005,000	300,000
	<u>\$ 7,075,974</u>	<u>\$ -</u>	<u>\$ 394,114</u>	<u>\$ 6,681,860</u>	<u>\$ 932,834</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).

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:

	Balance at <u>September 30, 2012</u>
\$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 2012 A dated August 1, 2012	56,800,000
\$6,000,000 Variable Rate Demand Industrial Development Revenue Bonds (CMI Project) Series 2007 dated May 1, 2007	5,285,000
\$56,200,000 Solid Waste Disposal Variable Rate Demand Revenue Bond (Allied Waste North America, Inc. Project) Series 2008A dated May 1, 2008	56,200,000

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 8 – CONDUIT DEBT OBLIGATIONS (Continued)

\$10,000,000 Industrial Development Revenue Bond (AmeriTex Pipe & Products LLC) Series 2008 dated August 1, 2008	5,701,592
\$67,000,000 Solid Waste Disposal Revenue Bond (Waste Management Inc, Project), Series 2008 dated August 1, 2008	67,000,000
\$1,341,250 Industrial Development Revenue Bond (4 Over, Inc. Project) Series 2009A dated February 1, 2009	727,115
\$1,702,000 Industrial Development Revenue Bond (4 Over, Inc. Project) Series 2009B dated August 1, 2012	951,789
\$40,200,000 Solid Waste Disposal Revenue Bonds (Dallas Clean Energy McCommas Bluff, LLC Project) Series 2011 dated March 1, 2011	<u>39,400,000</u>
	<u>\$ 297,815,496</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, 2012, MEDC received \$2,500, net of \$2,500 paid to advisors.

In the current year, MEDC was paid issuance cost for the refinancing of one of its conduit debt issues. MEDC received \$106,000, net of \$106,000 paid to advisors for issuance costs.

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 8 – 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, 2012, MEDC received \$75,870 net of \$75,870 of advisor and local access fees.

In total, MEDC collected \$368,740 in fees related to conduit debt of which \$184,370 was paid to its advisors for application, issuance, advisor and local access fees.

NOTE 9 – OPERATING LEASE COMMITMENT

MEDC leased office equipment under an operating lease. Total costs for such lease was \$4,494 for the year ended September 30, 2012. The future minimum lease payments for the lease is as follows:

	<u>September 30,</u>	
	2013	\$ 4,478
	2014	4,494
	2015	374
	2016 and beyond	<u>-</u>
	Total	<u>\$ 9,346</u>

NOTE10 – 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.

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 11 – FUND BALANCE CLASSIFICATION

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Fund balance:			
Nonspendable			
Prepaid	\$ 2,719	\$ -	\$ 2,719
Redevelopment Assets	123,324	-	123,324
Restricted			-
Debt service	-	527,191	527,191
Committed	1,206,676	-	1,206,676
Unassigned	<u>1,945,312</u>	<u>-</u>	<u>1,945,312</u>
Total Fund Balances	<u>\$ 3,278,031</u>	<u>\$ 527,191</u>	<u>\$ 3,805,222</u>

NOTE 12 – RELATED PARTY TRANSACTIONS

City of Mission terminated its agreement with Mission Economic Development Authority (MEDA) to perform the City’s economic development activities via City Council Resolution and has delegated all economic development activities to MEDC.

City of Mission provides personnel services to carry out the daily operating activities of MEDC. MEDC reimburses the City of Mission for the services provided as well as accounting and overhead costs.

NOTE 13 – COMMITMENTS

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

	Committed	Expended to Date	Remaining Commitment
Incentives:			
Small business	\$ 100,000	\$ -	\$ 100,000
North American Butterfly Association	100,000	50,000	50,000
Other Infrastructure projects	180,000	9,523	170,477
Infrastructure projects ***	<u>1,000,000</u>	<u>113,801</u>	<u>886,199</u>
	<u>\$1,380,000</u>	<u>\$ 173,324</u>	<u>\$ 1,206,676</u>

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

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE 14 – OTHER MATTERS

The City of Mission (the City) and Mission Economic Development Corporation (MEDC) filed a lawsuit against Mission Economic Development Authority (MEDA) to recover public funds held by MEDA for economic development activities on behalf of the City. MEDA countersued the City and MEDC claiming that the assets belonged to MEDA, and that the City and MEDC had no interest in those assets. The lawsuit was settled in April 2012 whereby, under the terms of the settlement, MEDA transferred its liquid assets to a trust for the benefit of Mission citizens who attend South Texas College. MEDC and the City paid \$1,000,000 each to the same trust. The City also assigned all economic development activities to MEDC. MEDA retained legal title to the land inventory.

*REQUIRED
SUPPLEMENTARY
INFORMATION*



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MISSION ECONOMIC DEVELOPMENT CORPORATION

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2012

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Sales tax	\$ 3,437,625	\$ 3,437,625	\$ 3,619,078	\$ 181,453
Total Taxes	<u>3,437,625</u>	<u>3,437,625</u>	<u>3,619,078</u>	<u>181,453</u>
Interest:				
Interest earned on investments	2,500	2,500	6,285	3,785
Interest earned on demand deposit	<u>1,500</u>	<u>1,500</u>	<u>1,041</u>	<u>(460)</u>
Total Interest	<u>4,000</u>	<u>4,000</u>	<u>7,326</u>	<u>3,325</u>
Miscellaneous:				
Application Fees-Ind. Dev. Bonds	-	-	2,500	2,500
Annual Filing Fee-Ind. Dev. Bonds	70,000	70,000	181,870	111,870
Rent-MRA	-	-	4,841	4,841
Misc. Income	-	-	188	188
Total Miscellaneous	<u>70,000</u>	<u>70,000</u>	<u>189,399</u>	<u>119,399</u>
Total Revenues	<u>3,511,625</u>	<u>3,511,625</u>	<u>3,815,802</u>	<u>304,177</u>
Expenditures:				
Current:				
Economic Development:				
Administration:				
Personal Services	307,484	307,484	310,342	(2,858)
Employee Benefits	92,584	92,584	91,296	1,288
Professional and Technical Services	237,000	237,000	135,914	101,086
Purchased Property Services	27,500	27,500	29,403	(1,903)
Other Purchased Services	58,300	58,300	44,832	13,468
Supplies	8,500	8,500	4,258	4,242
Capital Outlays	7,000	7,000	5,128	1,872
Community Promotions	40,000	40,000	20,570	19,430
Miscellaneous	<u>116,000</u>	<u>1,138,500</u>	<u>1,038,777</u>	<u>99,723</u>
	<u>894,368</u>	<u>1,916,868</u>	<u>1,680,520</u>	<u>236,348</u>
Development:				
Professional and Technical Services	-	50,000	11,367	38,633
Purchased Property Services	9,000	9,000	1,828	7,172
Other Purchased Services	180,000	175,000	133,742	41,258
Supplies	10,000	10,000	3,565	6,435
Miscellaneous	67,500	72,500	62,876	9,624
Projects	660,000	2,150,000	1,043,324	1,106,676
Incentives	-	535,333	101,317	434,016
	<u>926,500</u>	<u>3,001,833</u>	<u>1,358,019</u>	<u>1,643,814</u>
Total Expenditures	<u>1,820,868</u>	<u>4,918,701</u>	<u>3,038,540</u>	<u>1,880,162</u>

MISSION ECONOMIC DEVELOPMENT CORPORATION

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2012

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Excess (Deficiency) of Revenues Over Expenditures	1,690,757	(1,407,076)	777,262	2,184,338
Other Financing Sources (Uses):				
Operating transfers out	(665,198)	(665,198)	(665,198)	-
Total Other Financing Sources (Uses)	(665,198)	(665,198)	(665,198)	-
Net Change in Fund Balance	1,025,559	(2,072,274)	112,064	2,184,338
Fund Balance at Beginning of Year	3,042,643	3,042,643	3,042,643	-
Fund Balance at End of Year	\$ 4,068,202	\$ 970,369	\$ 3,154,707	\$ 2,184,338

MISSION ECONOMIC DEVELOPMENT CORPORATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2012

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 committed.

MISSION ECONOMIC DEVELOPMENT CORPORATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

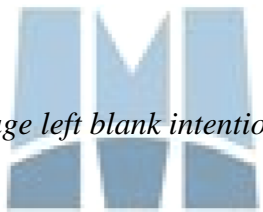
September 30, 2012

Budget to GAAP Reconciliation

The following is an explanation of differences between budgetary basis and GAAP:

<u>Expenditures:</u>	<u>General Fund</u>
Actual expenditures (budgetary basis) from the budgetary comparison schedule (Exhibit B-1)	\$ 3,038,540
Amount budgeted as expense per budgeted basis, inventoried per GAAP basis	(123,324)
Total expenditures as reported on the statement of revenues expenditures, and changes in fund balances-governmental funds (Exhibit A-5)	<u>\$ 2,915,216</u>

*OTHER
SUPPLEMENTARY
INFORMATION*



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MISSION ECONOMIC DEVELOPMENT CORPORATION

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2012

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Interest earned on investments	\$ 750	\$ 133	\$ (617)
Interest earned on demand deposit	1,000	464	(536)
Total Revenues	<u>1,750</u>	<u>597</u>	<u>(1,153)</u>
Expenditures:			
Current:			
Debt Service:			
Principal retirement	394,115	394,114	1
Interest and fiscal agent charges	273,084	269,285	3,799
Total Debt Service	<u>667,199</u>	<u>663,399</u>	<u>3,800</u>
Total Expenditures	<u>667,199</u>	<u>663,399</u>	<u>3,800</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(665,449)</u>	<u>(662,803)</u>	<u>2,647</u>
Other Financing Sources (Uses):			
Operating transfers-in	<u>665,198</u>	<u>665,198</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>665,198</u>	<u>665,198</u>	<u>-</u>
Net Change in Fund Balance	<u>(251)</u>	<u>2,395</u>	<u>2,647</u>
Fund Balance at Beginning of Year	<u>524,796</u>	<u>524,796</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 524,545</u>	<u>\$ 527,191</u>	<u>\$ 2,647</u>



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COMPLIANCE



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**INDEPENDENT AUDITOR'S 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 the financial statements of the governmental activities, and each major fund of Mission Economic Development Corporation as of and for the year ended September 30, 2012, which collectively comprise Mission Economic Development Corporation's basic financial statements and have issued our report thereon dated January 16, 2013. 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

Management of Mission Economic Development Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mission Economic Development 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 Mission Economic Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mission Economic Development Corporation's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Mission Economic Development 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 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 16, 2013