

# MISSION

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Financial Statements and  
Independent Auditor's Report: September 30, 2017  
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, 2017*

# *MEMBER BOARD OF DIRECTORS*

*YEAR ENDED SEPTEMBER 30, 2017*

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, 2017

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**MISSION ECONOMIC DEVELOPMENT CORPORATION**  
**(a component unit of the City of Mission)**  
Year Ended September 30, 2017

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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 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, 2017, 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 and each major fund, of the Mission Economic Development Corporation, a component unit of the City of Mission, Texas, as of September 30, 2017, 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 39–46 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 the 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 January 19, 2018, 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.

*Barton McHugh & Loyola, LLP*

McAllen, Texas  
January 19, 2018

**Mission Economic Development Corporation**  
**(a component unit of the City of Mission)**  
**Management's Discussion and Analysis**  
**September 30, 2017**

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, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements and disclosures following this section.

**Financial Highlights**

- The liabilities of MEDC exceeded assets at the close of the most recent fiscal year by \$976,685 (net position).
- The negative net position is due to the increase in MEDC's long-term debt and investment of capital assets.

**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 operating grants and contributions.

The government-wide financial statements can be found on pages 11-12 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 four 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, the Capital Projects Fund and the Special Revenue 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 13-16 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 17 of this report.

**Other information.** A budgetary comparison schedule is included as Required Supplementary Information (RSI) for the General Fund on page 35. Budgetary comparison schedules for the Debt Service Fund and Capital Projects Fund are provided as other supplementary information on pages 41-42.

### 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, liabilities exceeded assets by \$976,685 at the close of the fiscal year. Compared to the prior year, the net position decreased by \$1,011,389.

### Mission Economic Development Corporation

#### Net Position

September 30, 2017

	Governmental Activities	
	2017	2016
Current and other assets	\$ 2,567,456	\$ 10,317,490
Capital Assets	15,766,363	9,778,602
Total assets	18,333,819	20,096,092
Long-term liabilities	17,157,988	18,786,403
Other liabilities	2,077,517	1,199,905
Total liabilities	19,235,505	19,986,308
Net Position:		
Net investment in capital assets	15,766,363	9,778,602
Restricted	293,491	221,089
Unrestricted (deficit)	(16,961,539)	(9,889,987)
Total net position	\$ (901,685)	\$ 109,704

At the end of the current fiscal year, MEDC is unable to report a positive balance in unrestricted net position. 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, 2017**

	Governmental Activities	
	2017	2016
Revenues:		
Program Revenues:		
Charges for services	\$ 222,146	\$ 523,852
Operating grants and contributions	-	-
General revenues:		
Other taxes	3,703,002	3,792,009
Interest	17,708	13,170
Miscellaneous	131,752	54,705
Total revenues	<u>4,074,608</u>	<u>4,383,736</u>
Expenses:		
Economic development	4,417,385	4,095,413
Interest on long-term debt	<u>668,612</u>	<u>246,263</u>
Total expenses	<u>5,085,997</u>	<u>4,341,676</u>
Changes in net position	(1,011,389)	42,060
Net position 10/01	109,704	67,644
Net position 09/30	<u>\$ (901,685)</u>	<u>\$ 109,704</u>

**Governmental activities.** Governmental activities for the fiscal year decreased MEDC's net position by \$1,011,389 decreasing the net position from prior year.

Total revenues reflect a decrease of 7% compared to last year. Expenses reflected an increase of 19% compared to prior year. The increase is attributed to capital projects undertaken in fiscal year 2017.

**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 \$1,686,259 a decrease of \$8,555,750 in comparison with the prior year. Unassigned fund balance for all governmental funds, which is available for spending at MEDC discretion, reflects a negative \$2,259,228. In accordance with GASB No. 54, \$64,509 of total fund balance is considered nonspendable for prepaid assets; \$49,396 is restricted for capital projects; \$322,118 is restricted for debt service; and \$3,509,464 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 \$2,259,228; however the total fund balance of the general fund was \$1,290,722. 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 2017.

During the current fiscal year, the MEDC general fund balance decreased by \$2,230,295 or 63%. The key component and factor was a capital lease agreement that was reported in prior fiscal year and a revenue decrease of 8% or \$355,053.

The Debt Service Fund has a total fund balance of \$322,119, 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 2017.

The Capital Projects Fund has a total fund balance of \$49,396. In prior year the board authorized two bank loans, one from Lone Star National 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. As of the end of the current fiscal year, MEDC had purchased the land and the remaining fund balance was to continue furnishing the CEED Building.

### **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 \$7,438,862 during the year.

The original revenue budget was not amended in FY 2017.

- Final budget exceeded actual revenues by \$359,087. The majority of the decrease is attributed to lower sales tax revenues.

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 carryover of funds in the amount of \$6,468,271 that were not expensed at prior year end. Administration also increased from original to final budget in the amount of \$350,000 due to unexpected building improvements. Also, MEDC committed \$160,000 of incentives for economic development.

## Capital Asset and Debt Administration

**Long-term debt.** At the end of the current fiscal year, MEDC had total long-term debt outstanding of \$18,325,680, including a capital lease obligation totaling \$8,831,258.

### Mission Economic Development Corporation Outstanding Sales Tax Revenue Bonds September 30, 2017

	Governmental Activities	
	2017	2016
Sales Tax Refunding Bonds Series 2010	\$ 2,380,000	\$ 2,730,000
2016 Lone Star National Bank	1,875,225	2,000,000
2016 Frost Loan	5,239,409	6,000,000
Total	<u>\$ 9,494,634</u>	<u>\$ 10,730,000</u>

As of September 30, 2017, MEDC had no authorized but unissued bonds. Additional information on MEDC's long-term debt can be found on pages 27-28 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 McAllen-Edinburg-Mission MSA as of November 30, 2017 was 6.2 percent, which represents a decrease compared to 7.6 percent from prior year. The state and national average unemployment rates are at 3.7 percent and 3.9 percent respectively.
- The 2017 General Fund operating budget was prepared using \$1,071,066 as the estimated restricted fund balance at September 30, 2017. The actual fund balance for the general fund was \$1,290,721; nevertheless, a \$737,719 fund balance is projected for September 30, 2018.

## 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 8<sup>th</sup> Street, City of Mission, Texas, 78572.



Mission Economic Development Corporation

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# *BASIC FINANCIAL STATEMENTS*



Mission Economic Development Corporation

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**MISSION ECONOMIC DEVELOPMENT CORPORATION**  
**(a component unit of the City of Mission)**  
**STATEMENT OF NET POSITION**  
September 30, 2017

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 139,468
Investments	1,302,421
Due from primary government	2,540
Due from other government	3,125
Prepaid	84,614
Receivables, net	649,414
Restricted assets	385,874
Capital assets:	
Land	5,523,909
Capital assets, net of accumulated depreciation	10,242,454
Total Assets	<u>18,333,819</u>
<b>LIABILITIES</b>	
Accounts payable	79,756
Accrued interest payable from restricted assets	28,627
Accrued wages payable	9,305
Due to primary government	792,137
Noncurrent liabilities	
Due within one year	1,167,692
Due in more than one year	17,157,988
Total Liabilities	<u>19,235,505</u>
<b>NET POSITION</b>	
Net investment in capital assets	15,766,363
Restricted for:	
Debt Service	293,491
Unrestricted	<u>(16,961,539)</u>
Total Net Position	<u>\$ (901,685)</u>

The accompanying notes are an integral part of this financial statement.

**MISSION ECONOMIC DEVELOPMENT CORPORATION**  
**(a component unit of the City of Mission)**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2017

		<b>Program Revenues</b>	<b>Net (Expenses)</b>
	<b>Expenses</b>	<b>Charges for</b>	<b>Revenue and</b>
		<b>Services</b>	<b>Changes in</b>
			<b>Net Assets</b>
			<b>Governmental</b>
			<b>Activities</b>
Functions/Programs			
Governmental activities:			
Economic development	\$ 4,417,385	\$ 219,832	\$ (4,197,553)
Interest and fiscal charges on long-term debt	668,612	2,314	(666,298)
Total Governmental Activities	<u>5,085,997</u>	<u>222,146</u>	<u>(4,863,851)</u>
Total	<u>5,085,997</u>	<u>222,146</u>	<u>(4,863,851)</u>
General Revenues:			
Sales taxes			3,703,002
Interest earned			17,708
Miscellaneous			131,752
Total General Revenues			<u>3,852,462</u>
Change in Net Assets			(1,011,389)
Net Position - 10/01/16			<u>109,704</u>
Net Position - 09/30/17			<u>\$ (901,685)</u>

The accompanying notes are an integral part of this financial statement.

**MISSION ECONOMIC DEVELOPMENT CORPORATION**  
**(a component unit of the City of Mission)**  
**BALANCE SHEET-GOVERNMENTAL FUNDS**  
September 30, 2017

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Education Development Council</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 139,468	\$ 302,013	\$ 59,838	\$ 24,023	\$ 525,342
Investments	1,302,421	-	-	-	1,302,421
Prepaid	64,509	20,105	-	-	84,614
Receivables:					
Sales Tax	609,305	-	-	-	609,305
Accounts-other	43,234	-	-	-	43,234
Due from primary government	2,540	-	-	-	2,540
Total Assets	<u>\$ 2,161,477</u>	<u>\$ 322,118</u>	<u>\$ 59,838</u>	<u>\$ 24,023</u>	<u>\$ 2,567,456</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 69,313	\$ -	\$ 10,442	\$ -	\$ 79,755
Accrued wages payable	9,305	-	-	-	9,305
Due to primary government	792,137	-	-	-	792,137
Total Liabilities	<u>870,755</u>	<u>-</u>	<u>10,442</u>	<u>-</u>	<u>881,197</u>
<b>FUND BALANCES</b>					
Nonspendable	64,509	-	-	-	64,509
Restricted for capital projects	-	-	49,396	-	49,396
Restricted for debt	-	322,118	-	-	322,118
Committed	3,485,441	-	-	24,023	3,509,464
Unassigned	(2,259,228)	-	-	-	(2,259,228)
Total Fund Balances	<u>1,290,722</u>	<u>322,118</u>	<u>49,396</u>	<u>24,023</u>	<u>1,686,259</u>
Total Liabilities and Fund Balances	<u>\$ 2,161,477</u>	<u>\$ 322,118</u>	<u>\$ 59,838</u>	<u>\$ 24,023</u>	<u>\$ 2,567,456</u>

The accompanying notes are an integral part of this financial 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, 2017

Total fund balances - governmental funds balance sheet	\$ 1,686,259
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.	15,766,363
Payables for capital leases which are not due in the current period are not reported in funds.	(8,831,258)
Payables for bond principal which are not due in the current period are not reported in funds.	(9,494,422)
Payables for bond interest which are not due in the current period are not reported in funds.	(28,627)
Net position of governmental activities - statement of net position	<u>\$ (901,685)</u>

The accompanying notes are an integral part of this financial 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, 2017**

	General Fund	Debt Service Fund	Capital Projects Fund	Education Development Council	Total Governmental Funds
Revenues:					
Taxes	\$ 3,703,002	\$ -	\$ -	\$ -	\$ 3,703,002
Charges for services	82,283	-	-	-	82,283
Interest	17,626	2,314	81	-	20,021
Miscellaneous	224,502	-	-	44,800	269,302
Total revenues	<u>4,027,413</u>	<u>2,314</u>	<u>81</u>	<u>44,800</u>	<u>4,074,608</u>
Expenditures:					
Current:					
General Government:					
Economic development	4,425,750	-	-	20,777	4,446,527
Capital projects:					
Economic development	-	-	5,958,620	-	5,958,620
Debt service:					
Principal	318,273	1,235,578	-	-	1,553,851
Interest and fiscal charges	341,727	329,633	-	-	671,360
Total expenditures	<u>5,085,750</u>	<u>1,565,211</u>	<u>5,958,620</u>	<u>20,777</u>	<u>12,630,358</u>
Excess (Deficiency) of Revenue over Expenditures	<u>(1,058,337)</u>	<u>(1,562,897)</u>	<u>(5,958,539)</u>	<u>24,023</u>	<u>(8,555,750)</u>
Other Financing Sources (Uses):					
Operating transfers	<u>(1,171,959)</u>	<u>1,632,550</u>	<u>(460,591)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(1,171,959)</u>	<u>1,632,550</u>	<u>(460,591)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(2,230,296)	69,653	(6,419,130)	24,023	(8,555,750)
Fund Balances at Beginning of Year	<u>3,521,018</u>	<u>252,465</u>	<u>6,468,526</u>	<u>-</u>	<u>10,242,009</u>
Fund Balances at End of Year	<u>\$ 1,290,722</u>	<u>\$ 322,118</u>	<u>\$ 49,396</u>	<u>\$ 24,023</u>	<u>\$ 1,686,259</u>

The accompanying notes are an integral part of this financial 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, 2017

Net change in fund balances - total governmental funds	\$ (8,555,750)
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.	6,442,279
The depreciation of capital assets used in governmental activities is not reported in the funds.	(454,518)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	318,273
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,235,578
(Increase) decrease in accrued interest payable from beginning of period to end of period	<u>2,749</u>
Change in net position of governmental activities - statement of activities	<u><u>\$ (1,011,389)</u></u>

The accompanying notes are an integral part of this financial statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION  
(a component unit of the City of Mission)  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017

**NOTE 1 - SUMMARY 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 accompanying financial statements include Mission Economic Development Corporation (MEDC) and its blended component unit, Mission Education Development Council, Inc., collectively referred to as "the financial reporting entity." The component unit has been included in the MEDC's reporting entity because of the nature and significance of its operational relationship with MEDC.

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  
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NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

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

*A. Reporting Entity - Continued*

Blended Component Unit

Mission Education Development Council, Inc. is a non-profit corporation developed to assist and support MEDC by promoting MEDC's education initiatives and Center for Education and Economic Development in order to create a 21<sup>st</sup> century ready workforce. The Board of Directors consist of seven directors, one of whom is the Mayor of the City of Mission. The remaining six are appointed by the Mayor and City Council of the City of Mission. At September 30, 2017, the board of directors and chief executive for Mission Education were the same as those for MEDC.

*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 charges to customers or applicants who benefit from privileges provided by a given function or segment such as issuance fees and annual fees assessed on conduit debt.

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.

MISSION ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

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

*C. Measurement focus and basis of accounting - Continued*

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

Sales taxes collected and held by the intermediary collecting governments at year end on behalf of the MEDC are also 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 certificates of deposit and U.S. government bonds. Investments are reported at fair value.

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 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, 2017.

*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.

MISSION ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

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

*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.

*H. 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.

*I. Outflows and Inflows*

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows and inflows of resources. *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. *Deferred inflows of 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, 2017 there were no deferred charges or revenues.

*J. 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 and long term portions of receivables. MEDC has prepaid expenses that are considered nonspendable.

MISSION ECONOMIC DEVELOPMENT CORPORATION  
(a component unit of the City of Mission)  
NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

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

*J. 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.

*K. Order of Expenditure of Funds*

When an 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.

*L. 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.

*M. 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 - *Continued*  
September 30, 2017

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

*M. 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

*N. 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, 2017, the carrying value and bank balance of MEDC's deposits was \$582,234. Deposits include demand accounts and certificate of deposits with an initial maturity of three months or less. At September 30, 2017, all deposits were 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 - *Continued*  
September 30, 2017

**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.

MEDC's investments' fair value measurements are as follows at September 30, 2017:

Investment Type	Fair Value	Fair Value Measurement Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Certificates of Deposit	\$ 99,991	\$ 99,991	\$ -	\$ -
U.S. Government Bonds	1,002,133	1,002,133	-	-
TexPool	200,296	200,296	-	-
	<u>\$ 1,302,420</u>	<u>\$ 1,302,420</u>	<u>\$ -</u>	<u>\$ -</u>

**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, 2017:

Investment Type	Amortized Cost	3 Months or Less	4 to 12 Months
TexPool	\$ 200,296	\$ 200,296	\$ -
Federal Natl Mtg Assn Medium Term NTS	502,028	-	502,028
Federal Home Ln Mtg Corp Medium Term NTS	250,340	-	250,340
Federal Farm CR Bks Cons Systemwide BDS	249,765	-	249,765
Southwest Natl Bk Wichita Kans CTF DEP	99,991	-	99,991
	<u>\$ 1,302,420</u>	<u>\$ 200,296</u>	<u>\$ 1,102,124</u>

MISSION ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

**NOTE 2 - DEPOSITS AND INVESTMENTS (*Continued*)**

*Credit Risk*

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

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, 2017, 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.

As of September 30, 2017, 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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

**NOTE 2 - DEPOSITS AND INVESTMENTS (*Continued*)**

*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, 2017, MEDC had deposits collateralized by pledged securities of \$2,065,764; all deposits were fully collateralized.

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

Petty cash	\$ 500
Carrying amount deposit	524,842
Investments	<u>1,302,420</u>
Cash and investments statement of net position	<u><u>\$ 1,827,762</u></u>
Cash and cash equivalents	\$ 139,468
Investments	1,302,420
Restricted assets	<u>385,874</u>
Cash and investments statement of net position	<u><u>\$ 1,827,762</u></u>

**NOTE 3 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A. Interfund Transfers:

	Transfers In	
	Debt Service	
	Fund	Total
Transfers out		
General fund	\$ 1,171,959	\$ 1,171,959
Capital projects fund	<u>460,591</u>	<u>460,591</u>
Total transfers out	<u><u>\$ 1,632,550</u></u>	<u><u>\$ 1,632,550</u></u>

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.

MISSION ECONOMIC DEVELOPMENT CORPORATION  
(a component unit of the City of Mission)  
NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

**NOTE 4 - RESTRICTED ASSETS**

Restricted assets held by Mission Economic Development Corporation at September 30, 2017 consist of the following:

	Cash and Cash Equivalents	Investments	Accrued Interest	Total
Debt service fund	\$ 302,013	\$ -	\$ -	\$ 302,013
Capital projects fund	59,838	-	-	59,838
Mission Education	24,023	-	-	24,023
	<u>\$ 385,874</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 385,874</u>

**NOTE 5 – CAPITAL ASSETS**

Capital Asset activity for the year ended September 30, 2017, was as follows:

	Balance at 10/1/16	Increases	Decreases	Balance at 9/30/17
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ 5,523,909	\$ -	\$ 5,523,909
Total capital assets not being depreciated	<u>-</u>	<u>5,523,909</u>	<u>-</u>	<u>5,523,909</u>
Capital assets being depreciated:				
Machinery and equipment	679,653	502,189	-	1,181,842
Building	9,268,541	416,181	-	9,684,722
Total capital assets being depreciated	<u>9,948,194</u>	<u>918,370</u>	<u>-</u>	<u>10,866,564</u>
Less accumulated depreciation for:				
Machinery and equipment	( 34,426)	( 174,281)	-	( 208,707)
Building	( 135,166)	( 280,237)	-	( 415,403)
Total accumulated depreciation	<u>( 169,592)</u>	<u>( 454,518)</u>	<u>-</u>	<u>( 624,110)</u>
Total capital assets being depreciated, net	<u>9,778,602</u>	<u>463,852</u>	<u>-</u>	<u>10,242,454</u>
Governmental Activities Capital Assets, net	<u>\$ 9,778,602</u>	<u>\$ 5,987,761</u>	<u>\$ -</u>	<u>\$15,766,363</u>

Depreciation expense charged to governmental activities totaled \$454,518 for the year ended September 30, 2017.

MISSION ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

**NOTE 6 - 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 refunding bond payable at September 30, 2017 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%. \$ 2,380,000

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

Year Ending September 30,	Principal	Interest	Total
2018	\$ 365,000	\$ 84,604	\$ 449,604
2019	380,000	70,263	450,263
2020	395,000	55,344	450,344
2021	295,000	42,061	337,061
2022	305,000	30,511	335,511
2023-2027	640,000	24,833	664,833
	<u>\$ 2,380,000</u>	<u>\$ 307,616</u>	<u>\$ 2,687,616</u>

Sales tax revenue notes payable at September 30, 2017 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% payable to Frost Bank. Note matures August 1, 2036. Note is collateralized by sales tax revenues collected. \$ 5,239,409

\$2,000,000 - Sales and Use Tax Revenue Note, due in monthly installments of \$20,105, including interest at 3.795% payable to Lone Star National Bank. Note matures on December 1, 2021. Note is collateralized by sales tax revenues collected. 1,875,013

\$ 7,114,422

MISSION ECONOMIC DEVELOPMENT CORPORATION  
(a component unit of the City of Mission)  
NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

**NOTE 6 - LONG-TERM DEBT PAYABLE (*Continued*)**

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

Year Ending September 30,	Principal	Interest	Total
2018	\$ 471,915	\$ 218,450	\$ 690,365
2019	478,869	203,159	682,028
2020	485,718	187,760	673,478
2021	493,147	171,781	664,928
2022	500,711	155,667	656,378
2023-2027	2,444,652	1,024,500	3,469,152
2028-2032	1,500,000	573,793	2,073,793
2033-2037	739,410	92,277	831,687
	<u>\$ 7,114,422</u>	<u>\$ 2,627,387</u>	<u>\$ 9,741,809</u>

The following is a summary of changes in long-term debt obligations for MEDC for the year ended September 30, 2017:

	Septmeber 30, 2016	Additional Obligations and Net Increases	Reitirements and Net Decreases	September 30, 2017	Due Within One Year
Bonds and notes:					
Sales Tax Refunding Bond	\$ 2,730,000	\$ -	\$ 350,000	\$ 2,380,000	\$ 365,000
Sales Tax Revenue Note - LSNB	2,000,000	-	124,987	1,875,013	157,542
Sales Tax Revenue Note - Frost	6,000,000	-	760,591	5,239,409	300,000
Total bonds and notes	<u>10,730,000</u>	<u>-</u>	<u>1,235,578</u>	<u>9,494,422</u>	<u>822,542</u>
Other Liabilities:					
Capital leases	9,149,531	-	318,273	8,831,258	330,564
Total other liabilities	<u>9,149,531</u>	<u>-</u>	<u>318,273</u>	<u>8,831,258</u>	<u>330,564</u>
Total long-term debt obligations	<u>\$ 19,879,531</u>	<u>\$ -</u>	<u>\$ 1,553,851</u>	<u>\$ 18,325,680</u>	<u>\$ 1,153,106</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 - *Continued*  
September 30, 2017

**NOTE 7 – 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, 2017</u>
\$6,000,000 Mission Economic Development Corporation Variable Rate Demand Industrial Development Revenue Bonds (CMI Project) Series 2007	\$ 4,380,000
\$40,200,000 Mission Economic Development Corporation Solid Waste Disposal Revenue Bonds (Dallas Clean Energy McCommas Bluff Project) Series 2011	27,455,000
\$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	8,700,000
\$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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

**NOTE 7 – CONDUIT DEBT OBLIGATIONS (*Continued*)**

	Balance at <u>September 30, 2017</u>
\$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	67,000,000
\$50,000,000 Mission Economic Development Corporation Solid Waste Disposal Revenue Bonds (CarbonLITE Recycling, LLC Project) Series 2016	<u>50,000,000</u>
	<u><u>\$ 637,170,000</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, 2017, there were no application submitted.

Upon issuance of conduit debt, an issuance fees is assessed based on the terms of the agreements. During the fiscal year ended September 30, 2017, there was one bond issued for which MEDC earned \$97,500.

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, 2017, MEDC received \$244,665 of which \$122,332 was paid to the advisor for local access fees.

For the fiscal year ended September 30, 2017, in total, MEDC collected \$439,665 in fees related to conduit debt of which \$219,832 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 - *Continued*  
September 30, 2017

**NOTE 8 – 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 9 – 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 \$276,769 for the year ended September 30, 2017. 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, 2017, were as follows:

<u>September 30,</u>	
2018	\$ 660,000
2019	660,000
2020	660,000
2021	660,000
2022	660,000
Thereafter	<u>9,047,500</u>
Total minimum lease payments	12,347,500
Less: interest	<u>( 3,516,242)</u>
Present value of minimum lease payments	<u><u>\$ 8,831,258</u></u>

**NOTE 10 – 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>Education Development Corporation</u>	<u>Total Governmental Funds</u>
Fund balance:					
Nonspendable					
Prepaid	\$ 64,509	\$ -	\$ -	\$ -	\$ 64,509
Restricted					
Capital projects	-	-	49,396	-	49,396
Debt service	-	322,118	-	-	322,118
Committed	3,485,441	-	-	24,023	3,509,464
Unassigned	<u>( 2,259,228)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 2,259,228)</u>
Total fund balances	<u><u>\$ 1,290,722</u></u>	<u><u>\$ 322,118</u></u>	<u><u>\$ 49,396</u></u>	<u><u>\$ 24,023</u></u>	<u><u>\$ 1,686,259</u></u>

MISSION ECONOMIC DEVELOPMENT CORPORATION  
(a component unit of the City of Mission)  
NOTES TO FINANCIAL STATEMENTS - *Continued*  
September 30, 2017

**NOTE 11 – 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. On May 31, 2016, MEDC obtained a loan from Lone Star National Bank. At September 30, 2017, the balance outstanding on the note was \$1,875,013.

**NOTE 12 – COMMITMENTS**

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

Incentives	Committed	Expended to Date	Remaining Commitment
Royal Technology	\$ 1,300,000	\$ 1,200,000	\$ 100,000
Southwest Steel Coil	450,000	-	450,000
Wonderful Citrus	3,000,000	600,000	2,400,000
Metal Processing International	55,000	-	55,000
Other Infrastructure Projects	100,000	50,000	50,000
Infrastructure Projects**	1,000,000	569,559	430,441
	<u>\$ 5,905,000</u>	<u>\$ 2,419,559</u>	<u>\$ 3,485,441</u>

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

**NOTE 13 – SUBSEQUENT EVENTS**

MEDC has evaluated all events or transactions that occurred after September 30, 2017 through January 19, 2017, the date these financial statements were available to be issued.

*REQUIRED  
SUPPLEMENTARY  
INFORMATION*



Mission Economic Development Corporation

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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, 2017**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Sales tax	\$ 3,912,500	\$3,912,500	\$3,703,002	\$ (209,498)
Total Taxes	3,912,500	3,912,500	3,703,002	(209,498)
Charges for services:				
CEED Rental Fees	340,000	340,000	76,548	(263,452)
CEED Reservation Fees	5,000	5,000	4,736	(264)
CEED Membership Fees	20,000	20,000	999	(19,001)
CEED Miscellaneous Fees	1,000	1,000	-	(1,000)
Total charges for services	366,000	366,000	82,283	(283,717)
Interest:				
Interest earned on investments	8,000	8,000	12,461	4,461
Interest earned on demand deposit	1,000	1,000	5,165	4,165
Total Interest	9,000	9,000	17,626	8,626
Miscellaneous:				
Annual Filing Fee-Ind. Dev. Bonds	100,000	100,000	122,332	22,332
Issuance Fee-Ind. Dev. Bonds	-	-	97,500	97,500
MRA Rental Fees	-	-	6,500	6,500
Misc. Income	-	-	(1,830)	(1,830)
Total Miscellaneous	100,000	100,000	224,502	124,502
Total Revenues	4,387,500	4,387,500	4,027,413	(360,087)
Expenditures:				
Current:				
Economic Development:				
Administration:				
Personnel services	705,704	705,704	689,476	16,228
Employee benefits	179,552	179,552	161,555	17,997
Professional and technical services	599,000	379,592	146,785	232,807
Purchased property services	747,200	1,177,200	82,179	1,095,021
Other purchased services	67,550	128,250	93,864	34,386
Supplies	8,500	18,800	20,490	(1,690)
Capital outlays	5,000	105,000	459,484	(354,484)
Community promotions	100,000	100,000	96,024	3,976
Miscellaneous	116,500	84,908	52,346	32,562
	2,529,006	2,879,006	1,802,203	1,076,803

**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, 2017**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Development:				
Professional and technical services	75,000	35,000	26,028	8,972
Other purchased services	215,000	255,000	227,865	27,135
Supplies	10,000	10,000	4,877	5,123
Miscellaneous	82,000	82,000	55,846	26,154
Projects	1,437,449	1,537,449	1,247,200	290,249
Incentives	1,320,000	1,320,000	1,061,731	258,269
	<u>3,139,449</u>	<u>3,239,449</u>	<u>2,623,547</u>	<u>615,902</u>
Debt Service:				
Principal	-	-	318,273	(318,273)
Interest	-	-	341,727	(341,727)
	<u>-</u>	<u>-</u>	<u>660,000</u>	<u>(660,000)</u>
 Total Expenditures	 <u>5,668,455</u>	 <u>6,118,455</u>	 <u>5,085,750</u>	 <u>1,032,705</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>(1,280,955)</u>	 <u>(1,730,955)</u>	 <u>(1,058,337)</u>	 <u>672,618</u>
Other Financing Sources (Uses):				
Sale of capital assets	3,000,000	3,000,000	-	(3,000,000)
Operating transfers out	(1,171,959)	(1,171,959)	(1,171,959)	-
Total Other Financing Sources (Uses)	<u>1,828,041</u>	<u>1,828,041</u>	<u>(1,171,959)</u>	<u>(3,000,000)</u>
 Net Change in Fund Balance	 <u>547,086</u>	 <u>97,086</u>	 <u>(2,230,296)</u>	 <u>(2,327,382)</u>
 Fund Balance at Beginning of Year	 <u>3,521,018</u>	 <u>3,521,018</u>	 <u>3,521,018</u>	 <u>-</u>
 Fund Balance at End of Year	 <u>\$ 4,068,104</u>	 <u>\$ 3,618,104</u>	 <u>\$ 1,290,722</u>	 <u>\$ (2,327,382)</u>

MISSION ECONOMIC DEVELOPMENT CORPORATION  
(a component unit of the City of Mission)  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
September 30, 2017

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.



Mission Economic Development Corporation

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*OTHER  
SUPPLEMENTARY  
INFORMATION*



Mission Economic Development Corporation

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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, 2017**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Interest earned on investments	\$ 40	\$ 40	\$ -	\$ (40)
Interest earned on demand deposit	500	500	2,314	1,814
Total Revenues	540	540	2,314	1,774
Expenditures:				
Current:				
Debt Service:				
Principal retirement	694,775	1,155,366	1,235,578	(80,212)
Interest and fiscal agent charges	350,738	350,738	329,633	21,105
Total Debt Service	1,045,513	1,506,104	1,565,211	(59,107)
Total Expenditures	1,045,513	1,506,104	1,565,211	(59,107)
Excess (Deficiency) of Revenues Over Expenditures	(1,044,973)	(1,505,564)	(1,562,897)	(57,333)
Other Financing Sources (Uses):				
Operating transfers	1,171,959	1,632,550	1,632,550	-
Total Other Financing Sources (Uses)	1,171,959	1,632,550	1,632,550	-
Net Change in Fund Balance	126,986	126,986	69,653	(57,333)
Fund Balance at Beginning of Year	252,465	252,465	252,465	-
Fund Balance at End of Year	\$ 379,451	\$ 379,451	\$ 322,118	\$ (57,333)

**MISSION ECONOMIC DEVELOPMENT CORPORATION**  
**(a component unit of the City of Mission)**  
**CAPITAL PROJECTS FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended September 30, 2017**

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Interest earned on demand deposit	\$ -	\$ -	\$ 81	\$ 81
Total Revenues	-	-	81	81
Expenditures:				
Purchased property services	-	15,000	8,435	6,565
Supplies	-	10,000	10,820	(820)
Capital outlays	-	5,982,680	5,939,365	43,315
Total Expenditures	-	6,007,680	5,958,620	49,060
Excess (Deficiency) of Revenues Over Expenditures	-	(6,007,680)	(5,958,539)	49,141
Other Financing Sources (Uses):				
Operating transfers	-	(460,591)	(460,591)	-
Total Other Financing Sources (Uses)	-	(460,591)	(460,591)	-
Net Change in Fund Balance	-	(6,468,271)	(6,419,130)	49,141
Fund Balance at Beginning of Year	6,468,526	6,468,526	6,468,526	-
Fund Balance at End of Year	\$ 6,468,526	\$ 255	\$ 49,396	\$ 49,141

# *COMPLIANCE*



Mission Economic Development Corporation

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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, 2017, 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 January 19, 2018.

**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 that we consider to be significant deficiencies. These deficiencies were described in the management letter dated January 19, 2018.

### **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 McCall & Longo, LLP*

McAllen, Texas  
January 19, 2018