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Mission Economic Development Corporation

Working outside the box

Financial Statements and
Independent Auditor's Report: September 30, 2018
Mission Economic Development Corporation
City of Mission, Texas

**MISSION
ECONOMIC
DEVELOPMENT
CORPORATION**

(A COMPONENT UNIT OF THE CITY OF MISSION)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2018

MEMBER BOARD OF DIRECTORS

YEAR ENDED SEPTEMBER 30, 2018

| | |
|----------------|----------------------|
| President | S. David Deanda, Jr. |
| Vice President | Richard Hernandez |
| Secretary | Pete Jaramillo |
| Treasurer | Linda Requénez |
| Director | Mayor Armando O’Cana |
| Director | Catherine Garcia |
| Director | Mario Garza |

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
Year Ended September 30, 2018

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MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
Year Ended September 30, 2018

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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, 2018, 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, 2018, 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 3–8 and 33–35 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 March 11, 2019, 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 the effectiveness of 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.

Brenton McClure & Langieri, L.L.P.

McAllen, Texas
March 11, 2019

Mission Economic Development Corporation

Management's Discussion and Analysis

September 30, 2018

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, 2018. 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 \$2,030,102 (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 is 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 33. Budgetary comparison schedule for the Debt Service Fund is provided as other supplementary information on page 39.

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 \$2,030,102 at the close of the fiscal year. Compared to the prior year, the net position deficit increased by \$1,128,417.

Mission Economic Development Corporation

Net Position

September 30, 2018

| | Governmental Activities | |
|----------------------------------|-------------------------|---------------------|
| | 2018 | 2017 |
| Current and other assets | \$ 1,249,368 | \$ 2,567,456 |
| Capital Assets | <u>15,401,651</u> | <u>15,766,363</u> |
| Total assets | <u>16,651,019</u> | <u>18,333,819</u> |
| Long-term liabilities | 15,955,780 | 17,157,988 |
| Other liabilities | <u>2,725,341</u> | <u>2,077,517</u> |
| Total liabilities | <u>18,681,121</u> | <u>19,235,505</u> |
| Net Position: | | |
| Net investment in capital assets | 598,492 | 364,801 |
| Restricted | 296,036 | 293,491 |
| Unrestricted (deficit) | <u>(2,924,630)</u> | <u>(1,559,977)</u> |
| Total net positions | <u>\$ (2,030,102)</u> | <u>\$ (901,685)</u> |

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, 2018

| | Governmental Activities | |
|------------------------------------|-------------------------|---------------------|
| | 2018 | 2017 |
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 286,009 | \$ 222,146 |
| Operating grants and contributions | 478,477 | - |
| General revenues: | | |
| Sales taxes | 3,863,926 | 3,703,002 |
| Interest earned | 8,196 | 17,708 |
| Miscellaneous | 41,931 | 131,752 |
| Total revenues | <u>4,678,539</u> | <u>4,074,608</u> |
| Expenses: | | |
| Economic development | 5,136,502 | 4,417,385 |
| Interest on long-term debt | 670,454 | 668,612 |
| Total expenses | <u>5,806,956</u> | <u>5,085,997</u> |
| Changes in net position | (1,128,417) | (1,011,389) |
| Net position 10/01 | (901,685) | 109,704 |
| Net position 09/30 | <u>\$ (2,030,102)</u> | <u>\$ (901,685)</u> |

Governmental activities. Governmental activities for the fiscal year decreased MEDC’s net position by \$1,128,417, increasing the deficit net position from prior year.

Total revenues reflect an increase of \$603,931, or 14.82% compared to last year. In current fiscal year a new operating grant was received which made up \$478,477 of this increase. It also attributed to an increase in expenses of 14.18% compared to prior 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 a deficit combined ending fund balances of \$209,249 a decrease of \$1,895,508 in comparison with the prior year. Unassigned fund balance for all governmental funds, which is available for spending at MEDC discretion, reflects a negative \$3,208,136. In accordance with GASB No. 54, \$324 of total fund balance is considered nonspendable for prepaid assets; \$23,976 is restricted for capital purchases; \$336,586, is restricted for debt service; and \$2,638,001 is committed for various economic development projects, which will be funded over a period of five to 10 years; however, funds are considered committed at the end of the fiscal year.

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 \$3,208,136 and the total fund balance of the general fund was also a deficit of \$209,249.

During the current fiscal year, the MEDC general fund balance decreased by \$1,893,534. The decrease in fund balance was less than the decrease in prior year by \$336,762. Excluding the grant activity in current year, MEDC reduced expenditures from prior year by \$182,479 and increased revenues by \$138,633.

The Debt Service Fund has a total fund balance of \$336,586, 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 fiscal year 2018.

General Fund Budgetary Highlights

During the year, the MEDC Board amended the budget only once. 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 \$496,120 during the year.

In FY 2018 the revenue and expenditures were amended by the same amount.

- An operating grant was undertaken by MEDC in partnership with Texas Workforce Commission in the amount of \$496,120. This grant increased revenues and expenditures by \$478,477 in FY 17-18. The grant will allow for job training and employment related educational programs.

Capital Asset and Debt Administration

Long-term debt. At the end of the current fiscal year, MEDC had total long-term debt outstanding of \$17,157,978, including a capital lease obligation totaling \$8,500,694.

Mission Economic Development Corporation
 Outstanding Sales Tax Revenue Bonds
 September 30, 2018

| | Governmental Activities | |
|---------------------------------------|-------------------------|--------------|
| | 2018 | 2017 |
| Sales Tax Refunding Bonds Series 2010 | \$ 2,015,000 | \$ 2,380,000 |
| 2016 Lone Star National Bank | 1,702,875 | 1,875,013 |
| 2016 Frost Loan | 4,939,409 | 5,239,409 |
| Total | \$ 8,657,284 | \$ 9,494,422 |

As of September 30, 2018, MEDC had authorized staff to determine the best loan proposal for the acquisition of the property which is currently under capital lease but was issued in subsequent year. Additional information on MEDC’s long-term debt can be found on pages 24-25 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, 2018 was 5.8 percent, which represents a slight decrease compared to 6.2 percent from prior year. The state and national average unemployment rates are both reported at 3.5 percent.
- The 2018 General Fund operating budget was prepared using (\$582,715) as the estimated fund balance at September 30, 2018. The actual total fund balance for the general fund was (\$602,812). An \$11,436 fund balance is projected at September 30, 2019.

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.

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, 2018

| | | <u>Governmental Activities</u> |
|---|----|------------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ | 145,935 |
| Prepaid items | | 6,224 |
| Receivables, net | | 736,647 |
| Restricted cash | | 360,562 |
| Capital assets: | | |
| Land and construction-in-progress | | 5,523,909 |
| Capital assets, net of accumulated depreciation | | 9,877,742 |
| Total Assets | | <u>16,651,019</u> |
| LIABILITIES | | |
| Accounts payable | | 59,286 |
| Accrued interest payable from restricted assets | | 64,526 |
| Accrued wages payable | | 10,565 |
| Due to primary government | | 1,387,801 |
| Unearned revenue | | 965 |
| Noncurrent liabilities | | |
| Due within one year | | 1,202,198 |
| Due in more than one year | | 15,955,780 |
| Total Liabilities | | <u>18,681,121</u> |
| NET POSITION | | |
| Net investment in capital assets | | 598,492 |
| Restricted for: | | |
| Construction | | 23,976 |
| Debt service | | 272,060 |
| Unrestricted | | <u>(2,924,630)</u> |
| Total Net Position | \$ | <u><u>(2,030,102)</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)
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

| | <u>Program Revenues</u> | | | <u>Net (Expenses) Revenue and Changes in Net Assets</u> |
|---|-------------------------|---------------------------------|---|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> |
| Functions/Programs | | | | |
| COMPONENT UNIT: | | | | |
| Governmental activities: | | | | |
| Economic development | \$ 5,136,502 | \$ 285,594 | \$ 478,477 | \$ (4,372,431) |
| Interest and fiscal charges on long-term debt | <u>670,454</u> | <u>415</u> | <u>-</u> | <u>\$ (670,039)</u> |
| Total Governmental Activities | <u>5,806,956</u> | <u>286,009</u> | <u>478,477</u> | <u>(5,042,470)</u> |
| Total Component Unit | <u>5,806,956</u> | <u>286,009</u> | <u>478,477</u> | <u>(5,042,470)</u> |
| General Revenues: | | | | |
| Sales taxes | | | | 3,863,926 |
| Interest earned | | | | 8,196 |
| Miscellaneous | | | | 41,931 |
| Total General Revenues | | | | <u>3,914,053</u> |
| Change in Net Assets | | | | (1,128,417) |
| Net Position - 10/01/17 | | | | <u>(901,685)</u> |
| Net Position - 09/30/18 | | | | <u>\$ (2,030,102)</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, 2018

| | General Fund | Debt Service Fund | Capital Projects Fund | Education Development Council | Total Governmental Funds |
|--|-------------------|-------------------|-----------------------|-------------------------------|--------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 118,394 | \$ 336,586 | \$ 23,976 | \$ 27,541 | \$ 506,497 |
| Prepaid items | 324 | - | - | 5,900 | 6,224 |
| Receivables: | | | | | |
| Sales tax | 686,018 | - | - | - | 686,018 |
| Accounts-other | 42,360 | - | - | - | 42,360 |
| Due from other funds | - | - | - | 525 | 525 |
| Due from primary government | 8,269 | - | - | - | 8,269 |
| Total Assets | <u>\$ 855,365</u> | <u>\$ 336,586</u> | <u>\$ 23,976</u> | <u>\$ 33,966</u> | <u>\$ 1,249,893</u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ 59,286 | \$ - | \$ - | \$ - | \$ 59,286 |
| Due to other funds | 525 | - | - | - | 525 |
| Accrued wages payable | 10,565 | - | - | - | 10,565 |
| Due to primary government | 1,387,801 | - | - | - | 1,387,801 |
| Unearned revenue | - | - | - | 965 | 965 |
| Total Liabilities | <u>1,458,177</u> | <u>-</u> | <u>-</u> | <u>965</u> | <u>1,459,142</u> |
| FUND BALANCES | | | | | |
| Nonspendable | 324 | - | - | - | 324 |
| Restricted for capital projects | - | - | 23,976 | - | 23,976 |
| Restricted for debt | - | 336,586 | - | - | 336,586 |
| Committed | 2,605,000 | - | - | 33,001 | 2,638,001 |
| Unassigned | (3,208,136) | - | - | - | (3,208,136) |
| Total Fund Balances | <u>(602,812)</u> | <u>336,586</u> | <u>23,976</u> | <u>33,001</u> | <u>(209,249)</u> |
| Total Liabilities and Fund Balances | <u>\$ 855,365</u> | <u>\$ 336,586</u> | <u>\$ 23,976</u> | <u>\$ 33,966</u> | <u>\$ 1,249,893</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, 2018

| | | |
|--|-----------|--------------------|
| Total fund balances - governmental funds balance sheet | \$ | (209,249) |
| 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. | | 15,401,651 |
| Payables for capital leases which are not due in the current period are not reported in funds. | | (8,500,694) |
| Payables for bond principal which are not due in the current period are not reported in funds. | | (8,657,284) |
| Payables for bond interest which are not due in the current period are not reported in funds. | | (64,526) |
| Net position of governmental activities - statement of net position | <u>\$</u> | <u>(2,030,102)</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, 2018

| | General Fund | Debt Service Fund | Capital Projects Fund | Education Development Council | Total Governmental Funds |
|---|---------------------|----------------------|--------------------------|-------------------------------------|--------------------------------|
| Revenues: | | | | | |
| Sales taxes | \$ 3,863,926 | \$ - | \$ - | \$ - | \$ 3,863,926 |
| Intergovernmental | 478,477 | - | - | - | 478,477 |
| Charges for services | 285,594 | - | - | - | 285,594 |
| Interest | 8,196 | 415 | - | - | 8,611 |
| Miscellaneous | 8,331 | - | - | 33,600 | 41,931 |
| Total Revenues | 4,644,523 | 415 | - | 33,600 | 4,678,539 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General Government: | | | | | |
| Economic development | 4,243,271 | - | - | 24,622 | 4,267,893 |
| Texas Workforce Commission Grant | 478,477 | - | - | - | 478,477 |
| Capital projects: | | | | | |
| Economic development | - | - | 25,420 | - | 25,420 |
| Debt service: | | | | | |
| Principal | 330,564 | 837,137 | - | - | 1,167,701 |
| Interest and fiscal charges | 329,436 | 305,119 | - | - | 634,555 |
| Total expenditures | 5,381,748 | 1,142,256 | 25,420 | 24,622 | 6,574,046 |
| Excess (Deficiency) of Revenue over Expenditures | (737,225) | (1,141,841) | (25,420) | 8,978 | (1,895,507) |
| Other Financing Sources (Uses): | | | | | |
| Operating transfers | (1,156,309) | 1,156,309 | - | - | - |
| Total Other Financing Sources (Uses) | (1,156,309) | 1,156,309 | - | - | - |
| Net change in fund balances | (1,893,534) | 14,468 | (25,420) | 8,978 | (1,895,507) |
| Fund Balances at Beginning of Year | 1,290,722 | 322,118 | 49,396 | 24,023 | 1,686,259 |
| Fund Balances at End of Year | \$ (602,812) | \$ 336,586 | \$ 23,976 | \$ 33,001 | \$ (209,248) |

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, 2018

| | | |
|--|-----------|--------------------|
| Net change in fund balances - total governmental funds | \$ | (1,895,507) |
| Amounts reported for governmental activities in the statement of activities ("SOA") are different because: | | |
| Capital outlays are not reported as expenditures in the SOA. | | 188,136 |
| The depreciation of capital assets used in governmental activities is not reported in the funds. | | (552,847) |
| Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA. | | 330,564 |
| Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA. | | 837,137 |
| (Increase) decrease in accrued interest payable from beginning of period to end of period | | <u>(35,899)</u> |
| Change in net position of governmental activities - statement of activities | <u>\$</u> | <u>(1,128,416)</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, 2018

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
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

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 21st 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, 2018, the board of directors and chief executive for Mission Education Development Council, Inc. 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
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

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 are reported at fair value. Investments held during the year consisted of certificates of deposit and U.S. government bonds. At September 30, 2018, MEDC did not have any investments.

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, 2018.

F. Interfund Activity

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

G. Restricted Assets

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

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

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

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, 2018 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.

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.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

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

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 using the straight line method 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.

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 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, 2018, the carrying value and bank balance of MEDC's deposits was \$505,998. Deposits include demand accounts and certificate of deposits with an initial maturity of three months or less. At September 30, 2018, all deposits were fully insured or collateralized. See custodial credit risk below.

Investments - During the year, MEDC's investments which consisted of obligations of the U.S. Government or its Agencies and instrumentalities and public funds investment pools matured. At September 30, 2018, MEDC did not have any investments.

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.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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.

At September 30, 2018, MEDC had deposits collateralized by pledged securities of \$197,218; all deposits were insured by the FDIC or were fully collateralized.

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

| | | |
|------------------------------------|--------|--------------------|
| Petty cash | \$ | 500 |
| Carrying amount deposit | | 505,998 |
| Cash statement of net position | \$ | <u>506,498</u> |
| Cash and cash equivalents | \$ | 145,936 |
| Restricted assets | | 360,562 |
| Cash statement of net position | \$ | <u>506,498</u> |

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Transfers:

| | Transfers In | |
|---------------------|----------------------|--------------|
| | Debt Service Fund | Total |
| Transfers out | | |
| General fund | \$ 1,156,309 | \$ 1,156,309 |
| Total transfers out | \$ 1,156,309 | \$ 1,156,309 |

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
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

NOTE 4 - RESTRICTED ASSETS

Restricted assets held by Mission Economic Development Corporation at September 30, 2018 consisted of the following:

| | Cash and Cash Equivalents |
|-----------------------|------------------------------|
| Debt service fund | \$ 336,586 |
| Capital projects fund | 23,976 |
| | \$ 360,562 |

NOTE 5 – CAPITAL ASSETS

Capital Asset activity for the year ended September 30, 2018, was as follows:

| | Balance at 10/1/17 | Increases | Decreases | Balance at 9/30/18 |
|---|-----------------------|--------------|-----------|-----------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 5,523,909 | \$ - | \$ - | \$ 5,523,909 |
| Total capital assets not being depreciated | 5,523,909 | - | - | 5,523,909 |
| Capital assets being depreciated: | | | | |
| Machinery and equipment | 1,181,842 | 96,499 | - | 1,278,341 |
| Building | 9,684,722 | 92,406 | - | 9,777,128 |
| Total capital assets being depreciated | 10,866,564 | 188,905 | - | 11,055,469 |
| Less accumulated depreciation for: | | | | |
| Machinery and equipment | (208,707) | (137,444) | - | (346,151) |
| Building | (415,403) | (416,173) | - | (831,576) |
| Total accumulated depreciation | (624,110) | (553,617) | - | (1,177,727) |
| Total capital assets being depreciated, net | 10,242,454 | (364,712) | - | 9,877,742 |
| Governmental Activities Capital Assets, net | \$15,766,363 | \$(364,712) | \$ - | \$15,401,651 |

Depreciation expense charged to governmental activities totaled \$553,617 for the year ended September 30, 2018.

Land held at September 30, 2018 consisted of 9 parcels of land. MEDC intends to sell and is currently marketing these 9 parcels of land.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

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, 2018 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 \$395,000 from January 15, 2011 through 2024; interest at 3.85%. \$ 2,015,000

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

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|--------------|------------|--------------|
| 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 | 315,000 | 18,576 | 333,576 |
| 2024-2028 | 325,000 | 6,256 | 331,256 |
| | \$ 2,015,000 | \$ 223,011 | \$ 2,238,011 |

Sales tax revenue notes payable at September 30, 2018 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. \$ 4,939,410

\$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. 1,702,875

\$ 6,642,285

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

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 |
|------------------------------|---------------------|---------------------|---------------------|
| 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 | 508,572 | 139,256 | 647,828 |
| 2024-2028 | 2,236,080 | 1,042,002 | 3,278,082 |
| 2029-2033 | 1,500,000 | 468,793 | 1,968,793 |
| 2034-2038 | 439,188 | 40,517 | 479,705 |
| | <u>\$ 6,642,285</u> | <u>\$ 2,408,935</u> | <u>\$ 9,051,220</u> |

The following is a summary of changes in long-term debt obligations for MEDC for the year ended September 30, 2018:

| | Septmeber 30, 2017 | Additional Obligations and Net Increases | Retirements and Net Decreases | September 30, 2018 | Due Within One Year |
|----------------------------------|-----------------------|---|-------------------------------------|-----------------------|------------------------|
| Bonds and notes: | | | | | |
| Sales Tax Refunding Bond | \$ 2,380,000 | \$ - | \$ 365,000 | \$ 2,015,000 | \$ 380,000 |
| Sales Tax Revenue Note - LSNB | 1,875,013 | - | 172,137 | 1,702,876 | 178,869 |
| Sales Tax Revenue Note - Frost | 5,239,409 | - | 300,000 | 4,939,409 | 300,000 |
| Total bonds and notes | <u>9,494,422</u> | <u>-</u> | <u>837,137</u> | <u>8,657,285</u> | <u>858,869</u> |
| Other Liabilities: | | | | | |
| Capital leases | 8,831,258 | - | 330,564 | 8,500,694 | 343,330 |
| Total other liabilities | <u>8,831,258</u> | <u>-</u> | <u>330,564</u> | <u>8,500,694</u> | <u>343,330</u> |
| Total long-term debt obligations | <u>\$ 18,325,680</u> | <u>\$ -</u> | <u>\$ 1,167,701</u> | <u>\$ 17,157,979</u> | <u>\$ 1,202,199</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
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

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, 2018</u> |
|--|--|
| \$6,000,000 Mission Economic Development Corporation Variable Rate Demand Industrial Development Revenue Bonds (CMI Project) Series 2007 | \$ 4,170,000 |
| \$40,200,000 Mission Economic Development Corporation Solid Waste Disposal Revenue Bonds (Dallas Clean Energy McCommas Bluff Project) Series 2011 | 24,450,000 |
| \$48,000,000 Mission Economic Development Corporation Water Supply Revenue Bonds (Enviro Water Minerals Project), Series 2015 (Green Bonds) | 47,700,000 |
| \$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 | 8,485,000 |
| \$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 |
| \$41,750,000 Mission Economic Development Corporation Solid Waste Disposal Revenue Refunding Bonds (Waste Management, Inc. Project) Series 2006 | 41,750,000 |

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

NOTE 7 – CONDUIT DEBT OBLIGATIONS (*Continued*)

| | <u>Balance at September 30, 2018</u> |
|--|--|
| \$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>\$ 609,440,000</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, 2018, no applications were submitted.

Upon issuance of conduit debt, an issuance fee is assessed based on the terms of the agreements.

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, 2018, MEDC received \$232,060 of which \$116,030 was paid to the advisor for local access fees.

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.

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

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 was 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 \$416,173 for the year ended September 30, 2018. 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, 2018, were as follows:

| <u>September 30,</u> | |
|---|-----------------------------|
| 2019 | \$ 660,000 |
| 2020 | 660,000 |
| 2021 | 660,000 |
| 2022 | 660,000 |
| 2023 | 660,000 |
| Thereafter | <u>8,387,500</u> |
| Total minimum lease payments | 11,687,500 |
| | Less: interest (3,186,806) |
| Present value of minimum lease payments | <u><u>\$ 8,500,694</u></u> |

Subsequent to year end, MEDC entered into a loan with BBVA Compass Bank to purchase the CEED Building in the amount of \$7,919,131. See Note 14 Subsequent Events.

NOTE 10 – FUND BALANCE CLASSIFICATION

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

| | General Fund | Debt Service Fund | Capital Projects Fund | Education Development Corporation | Total Governmental Funds |
|---------------------|----------------------------|--------------------------|--------------------------|---|--------------------------------|
| Fund balance: | | | | | |
| Nonspendable | | | | | |
| Prepaid | \$ 324 | \$ - | \$ - | \$ - | \$ 324 |
| Restricted | | | | | |
| Capital projects | - | - | 23,976 | - | 23,976 |
| Debt service | - | 336,586 | - | - | 336,586 |
| Committed | 2,605,000 | - | - | 33,001 | 2,638,001 |
| Unassigned | <u>(3,208,136)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(3,208,136)</u> |
| Total fund balances | <u><u>\$ (602,812)</u></u> | <u><u>\$ 336,586</u></u> | <u><u>\$ 23,976</u></u> | <u><u>\$ 33,001</u></u> | <u><u>\$ (209,249)</u></u> |

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

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. However, during the year ended September 30, 2018, MEDC paid the City of Mission \$1,000,000 to help offset the debt service for the 2017 construction of the Mission Events Center.

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, 2018, the balance outstanding on the note was \$1,702,875.

NOTE 12 – COMMITMENTS

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

| <u>Incentives</u> | <u>Committed</u> | <u>Expended to Date</u> | <u>Remaining Commitment</u> |
|--------------------------------|---------------------|-----------------------------|---------------------------------|
| Southwest Steel Coil | \$ 450,000 | \$ - | \$ 450,000 |
| Wonderful Citrus | 3,000,000 | 900,000 | 2,100,000 |
| Metal Processing International | 55,000 | - | 55,000 |
| | <u>\$ 3,505,000</u> | <u>\$ 900,000</u> | <u>\$ 2,605,000</u> |

NOTE 13 – COMPLIANCE OF ACCOUNTABILITY

A. Finance – Related Legal and Contractual Provision

In accordance with GASB Statement No. 38, “Certain Financial Note Disclosures,” violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Deficit Fund Balance:

The following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

| <u>Fund Name</u> | <u>Deficit Amount</u> | <u>Remarks</u> |
|------------------|-----------------------|---|
| General Fund | \$ 602,812 | MEDC intends to sell land in fiscal year 2019. The proceeds from the sale of the land is expected to eliminate the deficit. Additionally, management is working diligently to increase revenues and decrease costs. |

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO FINANCIAL STATEMENTS - *Continued*
September 30, 2018

NOTE 14 – SUBSEQUENT EVENTS

MEDC has evaluated all events or transactions that occurred after September 30, 2018 through March 11, 2019, the date these financial statements were available to be issued.

On October 24, 2018, MEDC entered into a loan agreement with BBVA Compass Bank for the purchase of the Center of Education and Economic Development (CEED) building. Prior to being purchased, the building was being leased as described in note 9. The principal amount payable under the loan agreement totaled \$7,919,131 with a fixed rate equal to 4.82% per annum calculated on a per annum basis of 360-day year. Principal of \$395,957 is payable annually on February 15th, commencing on February 15, 2019 and continuing regularly thereafter until loan reaches maturity on February 15, 2038. Interest payments ranging from \$9,543 to \$181,309 are due on the 15th day of February and August commencing on February 15, 2019 through 2038.

*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, 2018

| | Budgeted Amounts | | Actual | Variance |
|--|------------------|--------------|--------------|--|
| | Original Budget | Final Budget | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Taxes: | | | | |
| Sales tax | \$ 3,912,500 | \$ 3,912,500 | \$ 3,863,926 | \$ (48,574) |
| Total Taxes | 3,912,500 | 3,912,500 | 3,863,926 | (48,574) |
| Intergovernmental: | | | | |
| Texas Workforce Comm Grant | | 496,120 | 478,477 | (17,643) |
| Total Intergovernmental | - | 496,120 | 478,477 | (17,643) |
| Charges for Services: | | | | |
| CEED Rental Fees | 150,000 | 150,000 | 130,833 | (19,167) |
| CEED Reservation Fees | 5,000 | 5,000 | 28,000 | 23,000 |
| CEED Membership Fees | 5,000 | 5,000 | 1,653 | (3,347) |
| Total Charges for Services | 160,000 | 160,000 | 160,486 | 486 |
| Interest: | | | | |
| Interest earned on investments | 8,000 | 8,000 | 6,818 | (1,182) |
| Interest earned on demand deposit | 1,000 | 1,000 | 1,378 | 378 |
| Total Interest | 9,000 | 9,000 | 8,196 | (804) |
| Miscellaneous: | | | | |
| Annual Filing Fee-Ind. Dev. Bonds | 100,000 | 100,000 | 116,030 | 16,030 |
| MRA Rental Fees | - | - | 6,500 | 6,500 |
| Misc. Income | 1,000 | 1,000 | 9,078 | 8,078 |
| Net increase (decrease) in investment fair value | - | - | 1,830 | 1,830 |
| Total Miscellaneous | 101,000 | 101,000 | 133,438 | 32,438 |
| Total Revenues | 4,182,500 | 4,678,620 | 4,644,523 | (34,097) |
| Expenditures: | | | | |
| Current: | | | | |
| Economic Development: | | | | |
| Administration: | | | | |
| Personal Services | 783,343 | 783,343 | 740,747 | 42,596 |
| Employee Benefits | 189,130 | 189,130 | 175,292 | 13,838 |
| Professional and Technical Services | 373,600 | 373,600 | 199,874 | 173,726 |
| Purchased Property Services | 273,500 | 278,500 | 171,782 | 106,718 |
| Other Purchased Services | 196,550 | 191,550 | 176,021 | 15,529 |
| Supplies | 43,000 | 48,000 | 19,759 | 28,241 |
| Capital Outlays | 185,000 | 185,000 | 158,528 | 26,472 |
| Community Promotions | 100,000 | 100,000 | 98,054 | 1,946 |
| Miscellaneous | 197,500 | 247,500 | 123,152 | 124,348 |
| Total Expenditures | 2,341,623 | 2,396,623 | 1,863,209 | 533,414 |

MISSION ECONOMIC DEVELOPMENT CORPORATION

(a component unit of the City of Mission)

GENERAL FUND BUDGETARY COMPARISON SCHEDULE - Continued

For the Year Ended September 30, 2018

| | Budgeted Amounts | | Actual | Variance |
|---|---------------------|---------------------|---------------------|--|
| | Original Budget | Final Budget | | Final Budget Positive (Negative) |
| Development: | | | | |
| Professional and Technical Services | 75,000 | 75,000 | 52,791 | 22,209 |
| Purchased Property Services | - | - | - | - |
| Other Purchased Services | 200,000 | 200,000 | 166,426 | 33,574 |
| Supplies | - | 3,150 | 7,392 | 3,150 |
| Miscellaneous | 7,000 | 7,000 | - | 7,000 |
| Projects | 1,475,915 | 1,475,915 | 1,125,000 | 350,915 |
| Incentives | 1,270,000 | 1,270,000 | 1,028,453 | 241,547 |
| | <u>3,027,915</u> | <u>3,031,065</u> | <u>2,380,062</u> | <u>658,395</u> |
| Texas Workforce Commission Grant: | | | | |
| Personal Services | - | 43,000 | 32,086 | 10,914 |
| Employee Benefits | - | 11,850 | 10,059 | 1,791 |
| Professional and Technical Services | - | 385,120 | 385,120 | - |
| Purchased Property Services | - | 25,000 | 25,000 | - |
| Supplies | 10,000 | 10,000 | - | 2,608 |
| Capital Outlays | - | 28,000 | 26,212 | 1,788 |
| | <u>10,000</u> | <u>502,970</u> | <u>478,477</u> | <u>17,101</u> |
| Debt Service: | | | | |
| Principal | 330,564 | 302,536 | 330,564 | (28,028) |
| Interest | 329,436 | 302,464 | 329,436 | (26,972) |
| | <u>660,000</u> | <u>605,000</u> | <u>660,000</u> | <u>(55,000)</u> |
| Total Expenditures | <u>6,039,538</u> | <u>6,535,658</u> | <u>5,381,748</u> | <u>1,153,910</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(1,857,038)</u> | <u>(1,857,038)</u> | <u>(737,225)</u> | <u>1,119,813</u> |
| Other Financing Sources (Uses): | | | | |
| Sale of capital assets | 3,000,000 | 3,000,000 | - | (3,000,000) |
| Operating transfers out | <u>(1,156,309)</u> | <u>(1,156,309)</u> | <u>(1,156,309)</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>1,843,691</u> | <u>1,843,691</u> | <u>(1,156,309)</u> | <u>(3,000,000)</u> |
| Net Change in Fund Balance | (13,347) | (13,347) | (1,893,534) | (1,880,187) |
| Fund Balance at Beginning of Year | <u>1,290,722</u> | <u>1,290,722</u> | <u>1,290,722</u> | <u>-</u> |
| Fund Balance at End of Year | <u>\$ 1,277,375</u> | <u>\$ 1,277,375</u> | <u>\$ (602,812)</u> | <u>\$ (1,880,187)</u> |

MISSION ECONOMIC DEVELOPMENT CORPORATION
(a component unit of the City of Mission)
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2018

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, 2018

| | Budgeted Amounts | | Actual | Variance |
|---|------------------|--------------|-------------|--|
| | Original Budget | Final Budget | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Taxes: | | | | |
| Interest earned on investments | \$ 40 | \$ 40 | \$ - | \$ (40) |
| Interest earned on demand deposit | 500 | 500 | 415 | (85) |
| Total Revenues | 540 | 540 | 415 | (125) |
| Expenditures: | | | | |
| Current: | | | | |
| Debt Service: | | | | |
| Principal retirement | 837,128 | 837,128 | 837,137 | (9) |
| Interest and fiscal agent charges | 319,181 | 319,181 | 305,119 | 14,062 |
| Total Debt Service | 1,156,309 | 1,156,309 | 1,142,256 | 14,053 |
| Total Expenditures | 1,156,309 | 1,156,309 | 1,142,256 | 14,053 |
| Excess (Deficiency) of Revenues Over Expenditures | (1,155,769) | (1,155,769) | (1,141,841) | 13,928 |
| Other Financing Sources (Uses): | | | | |
| Operating transfers | 1,156,309 | 1,156,309 | 1,156,309 | - |
| Total Other Financing Sources (Uses) | 1,156,309 | 1,156,309 | 1,156,309 | - |
| Net Change in Fund Balance | 540 | 540 | 14,468 | 13,928 |
| Fund Balance at Beginning of Year | 322,118 | 322,118 | 322,118 | - |
| Fund Balance at End of Year | \$ 322,658 | \$ 322,658 | \$ 336,586 | \$ 13,928 |

MISSION ECONOMIC DEVELOPMENT CORPORATION

(a component unit of the City of Mission)

CAPITAL PROJECTS FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2018

| | Budgeted Amounts | | Actual | Variance |
|---|------------------|--------------|-----------|--|
| | Original Budget | Final Budget | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Total Revenues | \$ - | \$ - | \$ - | \$ - |
| Expenditures: | | | | |
| Capital Outlays | - | 49,396 | 25,420 | 23,976 |
| Total Expenditures | - | 49,396 | 25,420 | 23,976 |
| Excess (Deficiency) of Revenues Over Expenditures | - | (49,396) | (25,420) | 23,976 |
| Other Financing Sources (Uses): | | | | |
| Total Other Financing Sources (Uses) | - | - | - | - |
| Net Change in Fund Balance | - | (49,396) | (25,420) | 23,976 |
| Fund Balance at Beginning of Year | 49,396 | 49,396 | 49,396 | - |
| Fund Balance at End of Year | \$ 49,396 | \$ - | \$ 23,976 | \$ 23,976 |

COMPLIANCE



Mission Economic Development Corporation

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The Right Choice.

BML

Burton
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& Longoria, LLP
CPAs & Advisors

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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, 2018, 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 March 11, 2019.

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. However, material weaknesses may exist that have not been identified.

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*.

We noted certain other matters that were reported to management of Mission Economic Development Corporation in a separate letter dated March 11, 2019.

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.

A handwritten signature in black ink that reads "Burt McCall & Company, LLP". The signature is written in a cursive, flowing style.

McAllen, Texas
March 11, 2019