

*MISSION ECONOMIC  
DEVELOPMENT  
CORPORATION*

*FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT*

*SEPTEMBER 30, 2008*

# *MEMBER BOARD OF DIRECTORS*

*YEAR ENDED SEPTEMBER 30, 2008*

President	Joe Roseland
Vice President	Polo De Leon
Secretary	Joel Gonzalez
Treasurer	John Martin
Director	Mayor Norberto Salinas
Director	Ricardo Martinez
Director	Cathy Garcia

**MISSION ECONOMIC DEVELOPMENT CORPORATION**  
**Year Ended September 30, 2008**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mission Economic Development Corporation, a component unit of the City of Mission, Texas, as of and for the year ended September 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mission Economic Development Corporation, a component unit of the City of Mission, Texas, as of September 30, 2008, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

*Long Chilton, LLP*  
LONG CHILTON, LLP  
Certified Public Accountants

McAllen, Texas  
January 9, 2009

# **Mission Economic Development Corporation**

## **Management's Discussion and Analysis**

### **September 30, 2008**

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, 2008. We encourage readers to consider the information presented here in conjunction with the financial statements and disclosure following this section.

### **Financial Highlights**

- The liabilities of MEDC exceeded assets at the close of the most recent fiscal year by \$1,366,380 (net assets).
- The net asset deficit is due to the fact that MEDC does not hold any capital assets in its' name, but rather provides funding for City of Mission projects and to the Mission Economic Development Authority, a separate entity which is required to have an independent audit of its' financial assets and activities.

### **Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements present governmental activities of the Corporation that are principally supported by sales taxes and operating grants and contributions.

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

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

The basic governmental fund financial statements can be found on pages 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 29. A budgetary comparison schedule for the Debt Service Fund is provided as other supplementary information on page 31.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of MEDC, liabilities exceeded assets by \$1,366,380 at the close of the fiscal year. Compared to prior year, the net assets deficit decreased by \$681,920 or 33.29 percent.

### Mission Economic Development Corporation

#### Net Assets

September 30, 2008

	Governmental Activities	
	2008	2007
Current and other assets	\$ 3,701,724	\$ 3,419,224
Capital Assets	-	-
Total assets	<u>3,701,724</u>	<u>3,419,224</u>
Long-term liabilities	4,905,000	5,120,000
Other liabilities	<u>163,105</u>	<u>347,523</u>
Total liabilities	<u>5,068,105</u>	<u>5,467,523</u>
Net Assets:		
Invested in capital assets, net of related debt	-	-
Restricted	551,483	533,041
Unrestricted (deficit)	<u>(1,917,863)</u>	<u>(2,581,341)</u>
Total net assets	<u>\$ (1,366,380)</u>	<u>\$ (2,048,300)</u>

At the end of the current fiscal year, MEDC is unable to report a positive balance in unrestricted net assets. The net asset deficit is due to the fact that MEDC does not hold any capital assets in its name; therefore, any long-term debt issued is to provide funding for City of Mission infrastructure projects. MEDC also provides funding to the Mission Economic Development Authority, a separate entity, which is required to have an independent audit of its financial assets and activities. Restricted net assets are restricted for the purpose of debt service.

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

**Mission Economic Development Corporation**  
**Changes in Net Assets**  
**September 30, 2008**

	Governmental Activities	
	2008	2007
Revenues:		
Program Revenues:		
Charges for services	\$ -	\$ -
Operating grants and contributions	345,504	407,293
Capital grants and contributions	-	12,864
General revenues:		
Other taxes	3,261,526	2,953,115
Interest	71,177	108,516
Total revenues	<u>3,678,207</u>	<u>3,481,788</u>
Expenses:		
General government	2,738,899	2,369,344
Capital projects	-	635,572
Interest on long-term debt	257,389	267,383
Total expenses	<u>2,996,288</u>	<u>3,272,299</u>
Changes in net assets	681,919	209,489
Net assets-10/01/06	<u>(2,048,299)</u>	<u>(2,257,788)</u>
Net assets-09/30/07	<u>\$ (1,366,380)</u>	<u>\$ (2,048,299)</u>

**Governmental activities.** Governmental activities for the fiscal year increased MEDC's net assets by \$681,920 reducing the deficit net assets from 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, MEDC's governmental funds reported combined ending fund balances of \$3,577,775 an increase of \$465,266 in comparison with the prior year. \$2,987,137 constitutes unreserved fund balance for all governmental funds, which is available for spending at MEDC discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for the reduction of debt service.

The general fund is the chief operating fund of MEDC. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,987,137 as well as total fund balance was \$2,987,137. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance as well as total fund balance exceeds expenditures by 9.06 percent.

During the current fiscal year, the MEDC fund balance of the general fund increased by \$448,478. The key components and factors in this increase are as follows:

- Sales tax revenues increased by \$308,411 or 10.44 percent compared to prior year. Several businesses opened their doors during the fiscal year, which contributed to the increase in sales tax. MEDC issued several Industrial Development Bonds to finance various projects in the State of Texas and received fees of \$328,716 from the various borrowers. This amount decreased by \$52,800 compared to prior year. See disclosure on pages 26-28 for more information.

The debt service fund has a total fund balance of \$590,638, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$16,788. Interest expenditures decreased during the current period by \$9,917.

## **General Fund Budgetary Highlights**

There was a difference of \$80,000 between the original budget and the final amended budget for the general fund.

- The difference between the original budget and the final amended budget was attributed to an additional \$80,000 funding to the City of Mission for the Schuerbach Road Paving Project. Pavement of this road will enable tourists and citizens to visit the NABA Butterfly Park.
- Actual expenditures were \$367,603 less than final budget. The difference was in the MEDA incentive program. Due to the slow economy, fewer businesses were enticed to come to the City of Mission.

The original revenue budget wasn't amended in FY 2008.

- Actual revenues exceed final budget by \$383,418 with annual filing fees and issuance fees collected from industrial development bonds issued during the fiscal year. MEDC received \$294,110 in issuance fees, \$32,105 in annual fees, and \$2,500 in application fees. Other than the annual fees, the issuance fees and application fees are not expected revenues because the issuance of conduit debt is not predictable.

## Capital Asset and Debt Administration

**Long-term debt.** At the end of the current fiscal year, MEDC had total long-term debt outstanding of \$4,905,000.

### Mission Economic Development Corporation Outstanding Sales Tax Revenue Bonds September 30, 2008

	Governmental Activities	
	2008	2007
Subordinate Lien Sales Tax		
Revenue Bonds	\$ 4,905,000	\$ 5,120,000
Total	\$ 4,905,000	\$ 5,120,000

MEDC's outstanding bonds underlying rating is "Baa2 and Aaa" by Moody's Rating Services.

As of September 30, 2008, MEDC had no authorized but unissued bonds. Additional information on MEDC's long-term debt can be found on pages 25-26 of this report.

## Economic Factors and Next Year's Budget

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

- According to the Texas Labor Market Review, the unemployment rate for the City of Mission as of September 2008 is 7.0 percent, which represents an increase compared to 4.5 percent from prior year. The state and national average unemployment rates are at 5.2 percent and 6.0 percent respectively.
- The 2009 general fund operating budget was prepared using \$2,662,332 as the estimated unreserved fund balance at September 30, 2008. The actual fund balance for the general fund was \$2,987,138; nevertheless, a \$1,938,908 fund balance is projected at September 30, 2009.

## **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.

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# **BASIC FINANCIAL STATEMENTS**

## MISSION ECONOMIC DEVELOPMENT CORPORATION

## STATEMENT OF NET ASSETS

September 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 316,648
Investments	2,276,748
Taxes receivable-sales	517,690
Restricted Assets	<u>590,638</u>
Total Assets	<u>3,701,724</u>
LIABILITIES	
Accounts payable	44,952
Accrued interest payable from restricted assets	39,155
Due to primary government	78,998
Noncurrent liabilities	
Due within one year	225,000
Due in more than one year	<u>4,680,000</u>
Total Liabilities	<u>5,068,105</u>
NET ASSETS	
Restricted For:	
Debt Service	551,483
Unrestricted	<u>(1,917,863)</u>
Total Net Assets	<u>\$ (1,366,380)</u>

The accompanying notes are an integral part of this statement.

## MISSION ECONOMIC DEVELOPMENT CORPORATION

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2008

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>	Net (Expenses) Revenue and Changes in Net Assets
		<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
COMPONENT UNIT:			
Governmental activities:			
General government	\$ 2,738,899	\$ 328,716	\$ (2,410,183)
Interest and fiscal charges on long-term debt	257,389	16,788	(240,601)
Total Governmental Activities	<u>2,996,288</u>	<u>345,504</u>	<u>(2,650,784)</u>
Total Component Unit	<u>\$ 2,996,288</u>	<u>\$ 345,504</u>	<u>(2,650,784)</u>
General Revenues:			
Sales taxes			3,261,526
Interest earned			71,177
Total General Revenues			<u>3,332,703</u>
Change in Net Assets			<u>681,919</u>
Net assets - 10/01/07			(2,048,299)
Net assets - 09/30/08			\$ (1,366,380)

The accompanying notes are an integral part of this statement.

**MISSION ECONOMIC DEVELOPMENT CORPORATION**  
**BALANCE SHEET-GOVERNMENTAL FUNDS**  
September 30, 2008

	General Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 316,648	\$ 101,121	\$ 417,769
Investments	2,276,748	488,513	2,765,261
Receivables:			
Sales Tax	517,690	-	517,690
Accrued interest receivable	-	1,004	1,004
Total Assets	<u>\$ 3,111,086</u>	<u>\$ 590,638</u>	<u>\$ 3,701,724</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 44,952	\$ -	\$ 44,952
Due to primary government	78,998	-	78,998
Total Liabilities	<u>123,950</u>	<u>-</u>	<u>123,950</u>
<b>FUND BALANCES</b>			
Reserved for debt	-	590,638	590,638
Unreserved	2,987,137	-	2,987,137
Total Fund Balances	<u>2,987,137</u>	<u>590,638</u>	<u>3,577,775</u>
Total Liabilities and Fund Balances	<u>\$ 3,111,087</u>	<u>\$ 590,638</u>	<u>\$ 3,701,725</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
September 30, 2008

Total fund balances - governmental funds balance sheet	\$ 3,577,775
Amounts reported for governmental activities in the statement of net assets are different because:	
Payables for bond principal which are not due in the current period are not reported in funds.	(4,905,000)
Payables for bond interest which are not due in the current period are not reported in funds.	<u>(39,155)</u>
Net assets of governmental activities - statement of net assets	<u><u>\$ (1,366,380)</u></u>

The accompanying notes are an integral part of this statement.

**MISSION ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2008

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 3,261,526	\$ -	\$ 3,261,526
Interest	71,177	16,788	87,965
Miscellaneous	328,716	-	328,716
Total Revenues	<u>3,661,419</u>	<u>16,788</u>	<u>3,678,207</u>
Expenditures:			
Current:			
General Government:			
Economic development	2,738,899	-	2,738,899
Debt service:			
Principal	-	215,000	215,000
Interest and fiscal charges	-	259,042	259,042
Total Expenditures	<u>2,738,899</u>	<u>474,042</u>	<u>3,212,941</u>
Excess (Deficiency) of Revenues over Expenditures	<u>922,520</u>	<u>(457,254)</u>	<u>465,266</u>
Other Financing Sources (Uses):			
Operating transfers	(474,042)	474,042	-
Total Other Financing Sources (Uses)	<u>(474,042)</u>	<u>474,042</u>	<u>-</u>
Net change in fund balances	<u>448,478</u>	<u>16,788</u>	<u>465,266</u>
Fund Balances at Beginning of Year	<u>2,538,659</u>	<u>573,850</u>	<u>3,112,509</u>
Fund Balances at End of Year	<u>\$ 2,987,137</u>	<u>\$ 590,638</u>	<u>\$ 3,577,775</u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended September 30, 2008

Net change in fund balances - total governmental funds	\$ 465,266
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	215,000
(Increase) decrease in accrued interest payable from beginning of period to end of period	<u>1,653</u>
Change in net assets of governmental activities - statement of activities	<u><u>\$ 681,919</u></u>

The accompanying notes are an integral part of this statement.

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

*A. Reporting Entity*

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

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

*B. Government-wide and fund financial statements*

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

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

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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

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

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

MEDC reports the following major governmental funds:

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

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

*C. Measurement focus and basis of accounting*

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

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

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

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

*D. Cash and Investments*

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

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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

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

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

*E. Interfund Activity*

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

*F. Restricted Assets*

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

*G Long-Term Obligations*

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

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

*H. Fund Equity*

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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

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

**I. *Prepaid Items***

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

*Deposits* - At September 30, 2008, the carrying value of the Mission Economic Development Corporation's deposits was \$566,770 and the bank balance was \$566,770. All deposits were fully insured or collateralized.

*Investments* - During the year, MEDC's investments consisted of obligations of the U.S. Government or its Agencies and instrumentalities. Investments are categorized to give an indication of the level of risk assumed by MEDC at September 30, 2008. Such investments are categorized as either (1) insured or registered in MEDC's name, or securities held by MEDC or its agent in MEDC's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in MEDC's name, or (3) uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in MEDC's name.

Investments

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

MEDC's policy authorizes the following investment instruments:

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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

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

6. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged with a third party, selected by the Finance Director, other than an agency for the pledgor. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A master repurchase agreement must be signed by the bank/dealer prior to investment in a repurchase agreement.
7. Joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Interest Rate Risk –

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

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

The following is the Interest Rate Risk using Specific Identification, as of September 30, 2008:

Investment Type	Amortized Cost	Maturity Period		
		3 Months Less	or 4-12 Months	
Federal Home Loan Bank	\$ 498,388	\$ -	\$ 498,388	
Federal Nat'l Mortgage Assc.	398,488	-	398,488	
Federal Home Loan Bank Discount Corp	98,434	-	98,434	
Federal Nat'l Mortgage Assc. Disc. Note	99,640	-	99,640	
Federal Nat'l Mortgage Assc. Disc. Note	499,235	-	499,235	
Texpool	241,079	241,079	-	
Texpool	780,997	780,997	-	
	<u>\$ 2,616,260</u>	<u>\$ 1,022,076</u>	<u>\$ 1,594,185</u>	

Credit Risk –

MEDC's investment policy authorizes the following pools:

Public funds investment pools in Texas ("Pools") are established under the authority of the Inter-local Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"). Chapter 2258 of the Texas

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

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

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

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

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

As of September 30, 2008, the following was the composition of MEDC's credit rating by investment:

Credit Quality Distribution of Securities With Credit Exposure as a Percentage of Total Investments		
Investment Type	Rating	Exposure
Federal Home Loan Bank	AAA	19%
Federal Nat'l Mortgage Assc.	AAA	15%
Federal Home Loan Bank Discot	AAA	4%
Federal Nat'l Mortgage Assc. Di	AAA	4%
Federal Nat'l Mortgage Assc. Di	AAA	19%
Texpool	AAA	9%
Texpool	AAA	30%

*Concentrations of Credit Risk –*

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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

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

As of September 30, 2008, the following was the composition of MEDC's investment portfolio:

Federal Home Loan Bank	AAA	19%
Federal Nat'l Mortgage Assc.	AAA	15%
Federal Home Loan Bank Discount Corp.	AAA	4%
Federal Nat'l Mortgage Assc. Disc. Note	AAA	4%
Federal Nat'l Mortgage Assc. Disc. Note	AAA	19%
Texpool	AAA	9%
Texpool	AAA	30%

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

Carrying amount deposit	\$ 566,770
Investments	2,616,260
Cash and Investments Statement of Net Assets	<u>\$ 3,183,030</u>
 Cash and cash equivalents	 \$ 316,649
Investments	2,276,748
Restricted Assets	590,638
Less: Accrued Interest	(1,004)
Cash and Investments Statement of Net Assets	<u>\$ 3,183,030</u>

*Custodial Credit Risk –*

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

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

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

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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

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

- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- c. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

A. Due to/from the primary government and component unit at September 30, 2008 were as follows:

Receivable Entity	Payable Entity	Amount
Primary Government-City of Mission	MEDC-General Fund	\$ 78,998

B. Interfund Transfers:

	Debt Service Fund	Total
Transfer Out:		
General Fund	\$ 474,042	\$ 474,042
Total Transfer Out	<u>\$ 474,042</u>	<u>\$ 474,042</u>

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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

**NOTE 4 - RESTRICTED ASSETS**

Restricted assets held by Mission Economic Development Corporation at September 30, 2008 consist of the following:

	Cash and Cash Equivalents	Investments	Accrued Interest	Total
Reserve Fund	\$ 2,715	\$ 143,434	\$ 373	\$ 146,522
Debt Service Fund	98,406	345,079	631	444,116
	<u>\$ 101,121</u>	<u>\$ 488,513</u>	<u>\$ 1,004</u>	<u>\$ 590,638</u>

**NOTE 5 - LONG-TERM DEBT PAYABLE**

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

Sales tax revenue bonds payable at September 30, 2008 for the MEDC are comprised of the following:

\$1,415,000 (Tax-Exempt) Sales Tax Revenue Serial Bonds	
Series 1995 due in annual installments ranging from	
\$30,000 to \$110,000 from January 1, 1997 through 2020;	
interest at 5.25% to 6.60%.	
	\$ 955,000
\$5,180,000 Subordinate Lien Sales Tax Revenue Bonds	
Series 1999 due in annual installments ranging from	
\$110,000 to \$345,000 from February 15, 2000 through 2024;	
interest at 4.15% to 5.0%. Bonds maturing in 2010 and beyond	
are subject to being called in increments of \$5,000.	
	<u>3,950,000</u>
Total	<u>\$ 4,905,000</u>

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

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

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

Year Ending September 30,	Principal	Interest
2009	\$ 225,000	\$ 246,528
2010	235,000	235,416
2011	245,000	223,624
2012	260,000	210,995
2013	275,000	833,125
2014-2018	1,605,000	385,624
2019-2023	2,060,000	34,125
Total	\$ 4,905,000	\$ 2,169,437

The following is a summary of changes in long-term debt obligations for MEDC for the year ended September 30, 2008:

	September 30, 2007	Additional Obligations and Net Increases	Retirements and Net Decreases	September 30, 2008	Due within One Year
Sales Tax Revenue Bonds	\$ 5,120,000	\$ -	\$ 215,000	\$ 4,905,000	\$ 225,000

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

**NOTE 6 – CONDUIT DEBT OBLIGATIONS**

Mission Economic Development Corporation ( the "Issuer") pursuant to Texas Civil Statutes Article 5190.6( the "Act"),and the Industrial Revenue Bond Program (the "Rules"), Title 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:

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

**NOTE 6 – CONDUIT DEBT OBLIGATIONS *(Continued)***

	Balance at <u>September 30, 2008</u>
\$41,750,000 Solid Waste Disposal Revenue Bonds (Waste Management, Inc. Project) Series 2006 dated December 1, 2006	\$ 41,750,000
\$24,000,000 Variable Rate Demand Solid Waste Disposal Revenue Bonds (IESI Texas Corporation Project) Series 2007 dated March 1, 2007	24,000,000
\$56,800,000 Solid Waste Disposal Revenue Bonds (Allied Waste North America, Inc. Project) Series 2007 A dated April 1, 2007	56,800,000
\$6,000,000 Variable Rate Demand Industrial Development Revenue Bonds (CMI Project) Series 2007 dated May 1, 2007	5,870,000
\$56,200,000 Solid Waste Disposal Variable Rate Demand Revenue Bond (Allied Waste North America, Inc. Project) Series 2008A dated May 1, 2008	56,200,000
\$10,000,000 Industrial Development Revenue Bond (AmeriTex Pipe & Products LLC) Series 2008 dated August 1, 2008	10,000,000
\$67,000,000 Solid Waste Disposal Revenue Bond (Waste Management Inc, Project), Series 2008 dated August 1, 2008	<u>67,000,000</u>
	<u>\$ 261,720,000</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

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008

**NOTE 6 – CONDUIT DEBT OBLIGATIONS *(Continued)***

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, 2008, MEDC received a net \$2,500 (net of \$2,500 in advisor fees) in application fees.

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, 2008, MEDC received a net \$326,215 in annual fees (net of \$306,600 in advisor and local access fees).

**NOTE 7 – RISK MANAGEMENT**

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

# **REQUIRED SUPPLEMENTARY INFORMATION**

## MISSION ECONOMIC DEVELOPMENT CORPORATION

## GENERAL FUND

## BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes:				
Sales tax	3,220,000	3,220,000	3,261,526	41,526
Total Taxes	3,220,000	3,220,000	3,261,526	41,526
Interest:				
Interest earned on investments	40,000	40,000	62,591	22,591
Interest earned on demand deposit	18,000	18,000	8,586	(9,414)
Total Interest	58,000	58,000	71,177	13,177
Miscellaneous:				
Application Fees-Ind. Dev. Bonds	-	-	2,500	2,500
Annual Filing Fee-Ind. Dev. Bonds	-	-	326,215	326,215
Total Miscellaneous	-	-	328,715	328,715
Total Revenues	3,278,000	3,278,000	3,661,418	383,418
Expenditures:				
Current:				
General Government:				
Street and drainage improvements	1,000,000	1,080,000	1,080,000	-
Travel, training, dues and subscriptions	5,000	5,000	3,903	1,097
Community promotions	5,000	15,000	15,000	-
Professional services	160,000	160,000	125,363	34,637
M.E.D.A. operating grant	870,000	870,000	870,000	-
M.E.D.A. incentives	830,000	830,000	539,191	290,809
Texas Citrus Fiesta	104,000	104,000	104,000	-
Contingency	50,000	40,000	-	40,000
Administration and miscellaneous	2,500	2,500	1,440	1,060
Total General Government	3,026,500	3,106,500	2,738,897	367,603
Total Expenditures	3,026,500	3,106,500	2,738,897	367,603
Excess (Deficiency) of Revenues Over Expenditures	251,500	171,500	922,521	751,021
Other Financing Sources (Uses):				
Operating transfers out	(474,044)	(474,044)	(474,042)	2
Total Other Financing Sources (Uses)	(474,044)	(474,044)	(474,042)	2
Net Change in Fund Balance	(222,544)	(302,544)	448,479	751,023
Fund Balance at Beginning of Year	2,538,659	2,538,659	2,538,659	-
Fund Balance at End of Year	\$ 2,316,115	\$ 2,236,115	\$ 2,987,138	\$ 751,023

MISSION ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
September 30, 2008

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

1. The City Manager submits a proposed operating budget for all funds, as mandated by the City Charter, to the City Council 60 to 90 days prior to the beginning of each fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. The City Council selects the time and place of a public hearing on the budget to obtain taxpayer comments.
3. The appropriated budget is adopted by a majority vote of the City Council, and signed into law by a budget ordinance.
4. The budget amounts used in this report are as amended by the City Council.
5. Budgetary appropriations lapse at the end of each fiscal year.
6. The total estimated expenditures of the General Fund and Debt Service Fund may not exceed the total estimated revenues plus cash on hand of each fund.
7. The current level of budgetary control is the department level within each fund.

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

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

# **OTHER SUPPLEMENTARY INFORMATION**

**MISSION ECONOMIC DEVELOPMENT CORPORATION**  
**DEBT SERVICE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
For the Year Ended September 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes:			
Interest earned on investments	\$ 11,000	\$ 15,506	\$ 4,506
Interest earned on demand deposit	2,000	1,281	(719)
Total Revenues	<u>13,000</u>	<u>16,787</u>	<u>3,787</u>
Expenditures:			
Current:			
Debt Service:			
Principal retirement	215,000	215,000	-
Interest and fiscal agent charges	259,044	259,042	2
Total Debt Service	<u>474,044</u>	<u>474,042</u>	<u>2</u>
Total Expenditures	<u>474,044</u>	<u>474,042</u>	<u>2</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(461,044)</u>	<u>(457,255)</u>	<u>3,789</u>
Other Financing Sources (Uses):			
Operating transfers	474,044	474,042	(2)
Total Other Financing Sources (Uses)	<u>474,044</u>	<u>474,042</u>	<u>(2)</u>
Net Change in Fund Balance	<u>13,000</u>	<u>16,787</u>	<u>3,787</u>
Fund Balance at Beginning of Year	<u>573,850</u>	<u>573,850</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 586,850</u>	<u>\$ 590,637</u>	<u>\$ 3,787</u>

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# COMPLIANCE

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

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

Members of the Board:

We have audited the financial statements of the governmental activities and each major fund of the Mission Economic Development Corporation as of and for the year ended September 30, 2008, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated January 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

A handwritten signature in black ink that reads "Long Chilton, LLP". The signature is written in a cursive, flowing style.

LONG CHILTON, LLP  
Certified Public Accountants

McAllen, Texas  
January 9, 2009