

**PHARR ECONOMIC DEVELOPMENT
CORPORATION II, INC**

**AUDITED
ANNUAL
FINANCIAL
REPORT FY 22-23**

A COMPONENT UNIT OF CITY OF PHARR, TEXAS

PHARR ECONOMIC DEVELOPMENT CORPORATION II, INC
AUDITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2023

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Board of Directors	i
	Texas Map	ii
	Independent Auditor's Report	1
	Management's Discussion and Analysis	4
	<u>Basic Financial Statements</u>	
	Government Wide Statements:	
A-1	Statement of Net Position	9
B-1	Statement of Activities	10
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	11
C-2	Reconciliation for C-1	12
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	13
C-4	Reconciliation for C-3	14
	Notes to the Financial Statements	15
	<u>Required Supplementary Information</u>	
G-1	Budgetary Comparison Schedule - General Fund	30
	<u>Internal Control/Compliance Section</u>	
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31
	Schedule of Findings and Questioned Costs	33
	Schedule of Status of Prior Findings	35
	Corrective Action Plan	41

THIS PAGE LEFT BLANK INTENTIONALLY

Pharr Economic Development Corporation II, Inc.

Audited Annual Financial Report

For the Fiscal Year Ended
September 30, 2023

BOARD MEMBERS

Ambrosio "Amos" Hernandez - President

Marty Moore
Mario Lizcano
Ricardo Medina

Ramiro Caballero
Reynaldo Perez
Michael Pacheco

EXECUTIVE DIRECTOR

Victor Perez

FINANCE DIRECTOR

Jamison Merrick

Prepared by:





FINANCIAL REPORT

THIS PAGE LEFT BLANK INTENTIONALLY

INDEPENDENT AUDITORS' REPORT

THIS PAGE LEFT BLANK INTENTIONALLY

Raul Hernandez & Company, P.C.
Certified Public Accountants
5402 Holly Rd, Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pharr Economic Development Corporation

Report on the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, and the major fund of the Pharr Economic Development Corporation (Pharr EDC), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Pharr EDC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of the Pharr EDC, as of September 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pharr EDC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Pharr EDC's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pharr EDC's ability to continue as a going concern for twelve months beyond the financial statement due date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pharr EDC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pharr EDC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison as listed in the table of contents, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2024, on our consideration of the Pharr EDC'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 solely 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 Pharr EDC's internal control over financial reporting and compliance.

Raul Hernandez & Company, P.C.

Corpus Christi, Texas

December 15, 2024

THIS PAGE LEFT BLANK INTENTIONALLY

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

THIS PAGE LEFT BLANK INTENTIONALLY

Pharr Economic Development Corporation II, Inc.
Management's Discussion & Analysis

As management of the Pharr Economic Development Corporation II, Inc (PEDC) we offer readers of the PEDC's financial statements this narrative overview and analysis of the financial activities of the PEDC for the fiscal year ended September 30, 2023.

FINANCIAL HIGHLIGHTS

- The total net position for PEDC is negative \$34.3 million. This is a decrease of \$8.5 million, net of the prior year adjustment of \$155 thousand, from last year's net position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is meant to serve as an introduction to the PEDC's basic financial statements. The PEDC's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains the required 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 the PEDC's finances, in a manner like a private-sector business.

The Statement of Net Position presents information on all the PEDC's assets and liabilities, with the difference 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 PEDC is improving or deteriorating.

The Statement of Activities presents information showing how the PEDC's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both government-wide financial statements distinguish functions of the PEDC that are principally supported by taxes. The governmental activities of the PEDC serve to improve the citizen's quality of life and assist in bringing/creating jobs to the City of Pharr.

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. The PEDC, like other governmental economic development entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Pharr Economic Development Corporation II, Inc.
Management's Discussion & Analysis

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 resources that can be spent, as well as on balances of resources that can be spent 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 funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The PEDC adopts an annual appropriated budget for the General fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the government-wide and fund financial statements.

Pharr Economic Development Corporation II, Inc.
Management's Discussion & Analysis

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In February 2022, PEDC signed an agreement with the City of Pharr to issue a \$54 million bond to cover part of the construction of the TeamPharr.net project. Even though PEDC acquired debt to help with the project, the City will manage and maintain the infrastructure so the total project assets will be reflected in the City's books.

The PEDC's condensed Statement of Net Position along with last fiscal year's numbers is presented for comparison in the table located below:

Table 1 - Dollars in Thousands

	2023	2022
Assets		
Current and other assets	\$ 7,714.7	\$ 4,459.8
Noncurrent assets	9,973.3	25,883.3
Capital Assets	6,014.7	6,152.7
Total Assets	23,702.7	36,495.8
Liabilities		
Current Liabilities	3,127.5	7,309.1
Noncurrent Liabilities	54,706.0	54,725.7
Total Liabilities	57,833.5	62,034.8
Deferred Inflows of Resources		
Deferred Lease - Rent	222.0	266.5
Total Deferred Inflow of Resources	222.0	266.5
Net Position		
Net Invested in capital assets	6,014.8	6,152.6
Restricted:		
Economic Development	304.2	597.9
Debt Service	5,965.3	6,963.7
Other Purposes	175.9	-
Construction In Progress	-	9,079.1
Unrestricted (deficit)	(46,813.1)	(48,598.8)
Total Net Position	\$ (34,352.9)	\$ (25,805.5)

Pharr Economic Development Corporation II, Inc.
Management's Discussion & Analysis

The PEDC's Changes in Net Position along with last fiscal year's numbers are presented for comparison in the following table below:

Table 2 - Dollars in Thousands

Revenues:	2023	2022
Sales Taxes	\$ 7,261.9	\$ 7,106.3
Investment Earnings	272.7	204.4
Other	368.9	42.8
Total Revenues	7,903.5	7,353.5
Expenses:		
Economic Development	24,532.1	44,800.3
Depreciation	137.9	137.9
Interest on long-term debt	2,298.6	754.3
Total Expenses	26,968.6	45,692.5
Excess of revenues over expenses	(19,065.1)	(38,339.0)
Other Financing Sources		
Transfers In (Out)	10,361.8	-
Net Contributions	-	-
Net change in fund balance	(8,703.3)	(38,339.0)
Net position - beginning	(25,805.5)	15,827.7
Prior period adjustments	155.9	(3,294.2)
Net position - ending	\$ (34,352.9)	\$ (25,805.5)

BUDGETARY HIGHLIGHTS

The overall expenses were \$20.7 million more than budgeted, these were due to the TeamPharr.net project. Sales taxes had an increase of \$155 thousand from what was budgeted.

Pharr Economic Development Corporation II, Inc.
Management's Discussion & Analysis

CAPITAL ASSET ADMINISTRATION

The PEDC's investment in capital assets (net of accumulated depreciation) for its governmental activities amounts to \$6.01 million. This investment in capital assets includes land purchases.

Table 3 - Dollars in Thousands

	Governmental Activities	
	2023	2022
Land	\$ 4,858.1	\$ 4,858.1
Building and improvements	200.8	229.0
Other improvements	884.1	980.6
Machinery and equipment	71.6	85.0
Construction in progress	-	-
	<u>\$ 6,014.6</u>	<u>\$ 6,152.7</u>

Additional information on the PEDC's capital assets can be found in the Notes to the Financial Statements in this report under section *III-Detailed Notes on Funds and Component Units, subsection D-Capital Assets*.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- The PEDC continues actively engaged with its Foundation in its effort to provide scholarship opportunities to students as well as efforts for student retention and employability in the Rio Grande Valley Region.
- The PEDC continues to provide Financial Support on Team Pharr.Net User installation costs as par of the Broadband's strategy to expand its maximum coverage availability of its citizens and businesses.
- The PEDC is increasing its efforts to attract Foreign Development Investors for both Retail and Manufacturing growth in the city.
- The PEDC is executing a joint Business Recruiting and Retention Strategy with Pharr International Bridge in aims to increase Bridge Crossings and Trade Market Share.

This financial report is designed to provide a general overview of the PEDC's finances for all those with an interest in the PEDC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to PEDC, Office of the Finance Director, P.O. Box 1729, Pharr, TX 78577.

THIS PAGE LEFT BLANK INTENTIONALLY

BASIC FINANCIAL STATEMENTS

THIS PAGE LEFT BLANK INTENTIONALLY

PHARR ECONOMIC DEVELOPMENT CORPORATION II, INC.
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

EXHIBIT A-1

	Primary	Government
		Governmental Activities
ASSETS		
Cash and Cash Equivalents	\$	4,450,285
Accounts Receivable, Net		3,028,917
Rent - Current Leases Receivable		46,120
Due from City of Pharr		189,381
Land Available for Sale		3,353,679
Restricted Assets - Cash and Cash Equivalents		6,443,730
Capital Assets:		
Land		4,858,106
Buildings, Net		200,879
Improvements other than Buildings, Net		884,072
Machinery and Equipment, Net		71,637
Rent - Non-Current Leases Receivable		175,924
Total Assets		<u>23,702,730</u>
LIABILITIES		
Accounts Payable		1,322,555
Due to City of Pharr		311,445
Accrued Interest Payable		284,071
Due Within One Year		1,209,494
Noncurrent Liabilities:		
Due in More Than One Year:		
Due In More Than One Year		<u>54,706,033</u>
Total Liabilities		<u>57,833,598</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Lease - Rent		<u>222,044</u>
Total Deferred Inflows of Resources		<u>222,044</u>
NET POSITION		
Net Investment in Capital Assets		6,014,694
Restricted:		
Restricted for Economic Development		304,284
Restricted for Debt Service		5,965,346
Restricted for Other Purposes		175,924
Unrestricted		<u>(46,813,160)</u>
Total Net Position	\$	<u>(34,352,912)</u>

The notes to the financial statements are an integral part of this statement.

PHARR ECONOMIC DEVELOPMENT CORPORATION II, INC.
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

EXHIBIT B-1

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
Economic Development	\$ 24,532,188	\$ 44,403	\$ -	\$ -	\$ (24,487,785)
Depreciation	137,943	-	-	-	(137,943)
Interest on Debt	2,298,664	-	-	-	(2,298,664)
TOTAL PRIMARY GOVERNMENT	\$ 26,968,795	\$ 44,403	\$ -	\$ -	(26,924,392)
General Revenues:					
General Sales and Use Taxes					7,261,860
Miscellaneous Revenue					324,588
Investment Earnings					272,731
Transfers In (Out):					10,361,829
Total General Revenues and Transfers					18,221,008
Change in Net Position					(8,703,384)
Net Position - Beginning					(25,805,501)
Prior Period Adjustment					155,973
Net Position - Ending					\$ (34,352,912)

The notes to the financial statements are an integral part of this statement.

PHARR ECONOMIC DEVELOPMENT CORPORATION II, INC.
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023

EXHIBIT C-1

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 4,450,285
Accounts Receivable, Net	-
Sales Tax Receivable	1,253,310
Rent - Current Leases Receivable	46,120
Other Receivable	241,000
Notes Receivable	1,534,607
Due from City of Pharr	189,381
Land Available for Sale	3,353,679
Rent - Non-Current Leases Receivable	175,924
Restricted Assets - Cash and Cash Equivalents	6,443,730
Total Assets	<u>\$ 17,688,036</u>
LIABILITIES	
Accounts Payable	\$ 1,322,555
Due to City of Pharr	311,445
Total Liabilities	<u>1,634,000</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Leases	222,044
Total Deferred Inflows of Resources	<u>222,044</u>
FUND BALANCE	
Nonspendable Fund Balance:	
Land Available for Sale	3,353,679
Restricted Fund Balance:	
Economic Development	6,337,043
Debt Service	5,965,346
Special Purposes	175,924
Total Fund Balance	<u>15,831,992</u>
Total Liabilities, Deferred Inflows & Fund Balance	<u>\$ 17,688,036</u>

The notes to the financial statements are an integral part of this statement.

PHARR ECONOMIC DEVELOPMENT CORPORATION II, INC.
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2023

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 15,831,992
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	(48,894,127)
The 2023 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(137,943)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(1,152,834)
Net Position of Governmental Activities	<u>\$ (34,352,912)</u>

The notes to the financial statements are an integral part of this statement.

PHARR ECONOMIC DEVELOPMENT CORPORATION II, INC.
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

EXHIBIT C-3

	General Fund
REVENUES:	
General Sales and Use Taxes	\$ 7,261,860
Investment Earnings	272,731
Other Revenue	368,991
Total Revenues	<u>7,903,582</u>
EXPENDITURES:	
Current:	
General Government	24,558,504
Debt Service:	
Interest on Debt	2,298,664
Total Expenditures	<u>26,857,168</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(18,953,586)</u>
OTHER FINANCING SOURCES (USES):	
Issuance of Debt	1,179,150
Transfers In	12,522,629
Transfers Out	(2,010,800)
Other (Uses)	(150,000)
Total Other Financing Sources (Uses)	<u>11,540,979</u>
Net Change in Fund Balance	(7,412,607)
Fund Balance - October 1 (Beginning)	23,088,626
Prior Period Adjustment	155,973
Fund Balance - September 30 (Ending)	<u>\$ 15,831,992</u>

The notes to the financial statements are an integral part of this statement.

PHARRECONOMIC DEVELOPMENT CORPORATION II, INC.
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2023

Total Net Change in Fund Balances - Governmental Funds	\$ (7,412,607)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(137,943)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.	(1,152,834)
Change in Net Position of Governmental Activities	<u><u>\$ (8,703,384)</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

THIS PAGE LEFT BLANK INTENTIONALLY

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

Pharr Economic Development Corporation II, Inc. – (PEDC) is incorporated in the state of Texas as a nonprofit corporation under the provisions of the Development Corporation Act of 1979. Voted by the citizens of Pharr on November 4, 2008 and ratified by the City Commission on November 10, 2008 via ordinance O-2008-49, the PEDC was authorized to receive sales tax revenues. PEDC was organized on behalf of the City of Pharr, Texas (City) to administer a special 0.5% sales tax for the specific purpose of the enhancement of quality-of-life projects as well as the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. Sales taxes are collected under Section 4B of the Development Corporation Act of 1979 for these purposes.

B. Reporting Entity

GASB Statement No. 14, The “Financial Reporting Entity,” as amended by GASB Statement No. 39 and No. 61, “Determining Whether Certain Organizations Are Component Units,” provide guidance for determining on either the entity should be reported as blended or discretely presented. GASB Statement No. 14 as amended by GASB No. 39 and No. 61 sets forth financial accountability as the basic criterion for inclusion of a governmental unit in a governmental reporting entity. Financial accountability is defined as appointment of a voting majority of the component unit’s board and either the ability to impose its will by the primary government or the possibility that the component unit will provide a financial benefit to or to impose a financial burden on the primary government. PEDC is consider a blended component unit due to its relationship with the City of Pharr. PEDC board members cannot add or remove a board member without city commission approval. Also, all policies and program administration shall be submitted for city commission approval and PEDC board shall administer said programs accordingly. Recently, PEDC and the City joined forces to increase the quality of life of the Pharr citizens by investing in broadband infrastructure, PEDC is funding part of the project, while the City will manage the construction and manage the service in the future. Separate financial statements issued by the City can be obtained by request at the following address:

Pharr Economic Development Corporation II
Attn: Executive Director
1215 South Cage Blvd.
Pharr, TX 78577

C. Government-Wide and Fund Financial Statements

The government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements report information on all the non-fiduciary financial information for the PEDC.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operations or capital requirements of a program. Taxes and other items not properly included among program revenues are reported as general revenues.

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the PEDC are prepared in accordance with generally accepted accounting principles (GAAP). Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, PEDC considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

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

E. Fund Type and Major Fund

Governmental Fund

The PEDC reports the following major governmental fund:

- *General Fund* – PEDC's only fund, is used to account for all the PEDC's financial activities.

F. Assets, Liabilities, and Net Position

1. Cash and Investments

All PEDC's cash is deposited into Lone Star National Bank. Cash, including some restricted cash is deposited into common operating account to maximize investment opportunities. As of September 30, 2023, PEDC does not hold any cash investment other than the interest earned from the bank accounts.

2. Accounts Receivables and Accounts Payables

All sales taxes and other receivables are shown net of an allowance of uncollectible. There was no allowance for uncollectible on September 30, 2023. Any residual balances outstanding between PEDC and vendors are reported as accounts payable.

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities, and Net Position (Continued)

3. Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activity column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$5,000 or more and a useful life greater than three years. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	30 Years
Improvements other than buildings	30 Years
Machinery and equipment	3-15 Years

4. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid accumulated annual and sick leave balances. The PEDC's policy allows employees to accumulate sick leave on an unlimited basis which will be paid out at the time of retirement at 100% for the first 720 hours and the rest will be paid at a 50% rate. Vacation leave is based on the number of years of full-time employment with the PEDC in accordance with the following chart:

Years of Employment	Pro-Rata Accrual Rate per Month
0-19 Years	10 hours (15 days per year)
20 & Over	13.33 hours (20 days per year)

All employees may accumulate no more than a maximum of 240 hours of vacation leave as set above.

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing resources.

6. Restricted Assets

The proceeds and required reserves of debt issuances are recorded as restricted assets as they are restricted for debt service or capital projects.

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities, and Net Position (Continued)

7. Net Position

In the financial statements, governmental funds report the difference between assets and liabilities, of which may or may not be available for future spending.

8. Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the report amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

9. Fund Balance

The PEDC follows GASB statement No. 54, which provides a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the PEDC's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB No. 54 provides for two major types of fund balances which are non-spendable and spendable.

Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories (land available for sale), and non-current advances to other funds that are not expected to be collected in the next fiscal year.

In addition to non-spendable fund balances, GASB 54 provides 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. PEDC's restricted funds are from sales tax revenues and bond covenants for bond reserves, which are legally restricted to expenditures for a particular purpose.

-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 PEDC governing members, the board of directors. 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 PEDC does not have any committed funds.

-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 Executive Director. Assigned funds relate to the TeamPharr.net project.

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

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities, and Net Position (Continued)

9. Fund Balance (Continued)

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the PEDC first applies restricted resources, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the PEDC considers amounts to have been spent first out of committed, then assigned, and then unassigned funds.

10. Leases

PEDC is a lessor in a lease of a building. Under the GASB Statement No. 87, PEDC recognizes a lease receivable and a deferred inflow of resources.

At the commencement of the lease, PEDC initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of the lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how PEDC determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- PEDC uses its estimated incremental borrowing rate as a discount rate for leases.
- The lease term includes the non-cancelable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lease.

PEDC monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflow of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

1. Budget Policy and Practice

The PEDC follows the procedures outlined below in establishing budgetary data reflected in the financial statements:

Annual budgets are legally adopted for all PEDC funds with revenue and expense/expenditure activity. The PEDC follows the City Charter, which states that between sixty (60) and ninety (90) days prior to the end of the fiscal year, the City Manager and CEO are required to submit to the City Commission and Board of Directors a proposed operating budget for the fiscal year commencing the following October 1.

The operating budget includes the proposed expenditures/expenses and the proposed method to finance them.

The Board of Directors may add to, subtract from, or change appropriations, but may not change the form of the proposed budget. Any changes must be within the revenue and reserves estimated as deemed available by the City Manager and Executive Director.

At any time during the fiscal year, the City Manager and the Executive Director can reallocate expenditures within a fund without the approval of the Board of Directors. However, any revisions to the budget which increase the total budgeted expenditures/expenses within any fund must be approved first by PEDC Board of Directors and then by City Commission.

The PEDC made a budget amendment during the fiscal year. The reason for the amendment was to ratify and allocate funds for TeamPharr.Net expenses.

B. Budget Basis of Accounting

The term “basis of accounting” is used to describe the timing of recognition, that is, when the effects of transactions or events should be recognized, PEDC prepares its annual budget on a basis (budget basis), which slightly differs from generally accepted accounting principles (GAAP Basis). The budget and all transactions are presented in accordance with the PEDC’s method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis are debt service transactions and the recording of bond/loan proceeds.

C. Finance-Related Legal and Contractual Provisions

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

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

C. Finance-Related Legal and Contractual Provisions (Continued)

Violations in relation to Bond proceeds in fiscal year 21-22.

Bond proceeds was required to have its own bank account and money was deposited in the operating account.

Action: Money was already depleted by the time this report was issued so no action was taken.

A revenue fund bank account was not created for bond proceeds, and revenue fund was not established by PEDC.

Action: A new bank account will be created, and the amounts required will be added to the account.

D. Prior Period Adjustments

Prior period adjustments (PPA) were needed to correct the financial position of PEDC. A significant adjustment was needed during fiscal year 22-23 due to the monthly bank transfer from the sales tax payment that the City's general fund contributes to the PEDC. This, the other PPA amounts, and their reasonings are as follows:

<u>Purpose of Prior Period Adjusment</u>	<u>Amount</u>	<u>Total</u>
<u>PEDC:</u>		
To clear accounts payable outstanding balance	\$ (19,313)	
To record sales tax transfer made from GF to PEDC	(189,380)	
To correct PEDC bank balance as of Sept 2023	<u>52,720</u>	<u>(155,973)</u>
Total governmental fund prior period adjustments		<u>\$ (155,973)</u>

III. DETAILED NOTES ON FUNDS

A. Deposits and Investments

1. Deposits

PEDC's funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Chapter 2257 Collateral for Public Funds of the Government Code in an amount enough to protect PEDC funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

III. DETAILED NOTES ON FUNDS (Continued)

A. Deposits and Investments (Continued)

1. Deposits (Continued)

On September 30, 2023, the carrying amount of all the PEDC's deposits was \$10,894,014. The PEDC has one depository account: Lone Star National Bank (LSNB).

	Balance September 30, 2023
<u>LSNB Depository Account-PEDC</u>	
FDIC insured	\$ 250,000
Security collateral issued by pledging bank's trust department in the PEDC's name	13,799,958
(Over-collateralized)/Under-collateralized	(3,155,944)
Total Deposits	<u>\$ 10,894,014</u>

Custodial credit risk is the risk that in the event of a bank failure, the PEDC's deposits may not be returned to it. The PEDC has a policy of maintaining contact with the trust department of its depository agency to eliminate all custodial credit risk. As of September 30, 2023, the PEDC's bank balance was not exposed to custodial credit risk and was over-insured and over-collateralized.

Restricted cash is defined as the cash balances restricted by the funder for a specific purpose. As of September 30, 2023, PEDC shows a restricted cash of \$6,443,730, of which \$478,383 are federal funds restricted by the USDA and EDA for the PEDC to loan to businesses as low interest loans and \$5,965,346 is reserved for debt service for the 2023 Revenue Bonds.

2. Investments

No investment as of September 30, 2023.

B. Receivables

1 Accounts Receivables

Receivables for the PEDC on September 30, 2023, were as follows:

	Governmental Activities
	<u>General</u>
Sales tax	\$ 1,253,310
Leases	222,044
Notes	1,534,607
Other	241,000
Net total receivable	<u>\$ 3,250,961</u>

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

B. Receivables (Continued)

2 Notes Receivable

Notes Receivables as of September 30, 2023, were as follows:

PEDC Notes Receivables

Notes Receivables as of September 30, 2023

Note	Outstanding Balance As of 10/1/2022	Increases	Outstanding Balance As of 9/30/2023
Reyes Garza, 05/13/2012, for the amount of \$27,021 at an interest rate of 6.00% with maturity on April 13, 2027.	\$ 14,793	\$ 14,793	\$ -
Pharr Bridge Business Park (Trancasa), 02/15/18, for the amount of \$800,000 at an interest rate of 6.00% with maturity on March 15, 2026.	451,174	76,781	374,393
Pharr Bridge Business Park (Trancasa), 09/30/2023, for the amount of \$1,179,150 at an interest rate of 8.50% with maturity on November 01, 2030	-		1,160,214
Totals	<u>\$ 465,967</u>	<u>\$ 91,574</u>	<u>\$ 1,534,607</u>

C. Payables

Payables for the PEDC on September 30, 2023, were as follows:

	Governmental Activities
	General
Vendors	\$ 1,322,555
Due to City of Pharr	311,445
Total Payables	<u>\$ 1,634,000</u>

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2023, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land and right of way	\$ 4,858,106	\$ -	\$ -	\$ 4,858,106
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	4,858,106	-	-	4,858,106
<i>Capital assets, being depreciated:</i>				
Buildings	747,170	-	-	747,170
Improvement other than buildings	1,640,656	-	-	1,640,656
Machinery and equipment	243,126	-	-	243,126
Total capital assets, being depreciated	2,630,952	-	-	2,630,952
Less accumulated depreciation				
Buildings	518,202	28,089	-	546,291
Improvement other than buildings	660,116	96,468	-	756,584
Machinery and equipment	158,103	13,386	-	171,489
Total accumulated depreciation	1,336,421	137,943	-	1,474,364
Total Capital assets, being depreciated, net	1,294,531	(137,943)	-	1,156,588
Governmental activities capital assets, net	\$ 6,152,637	\$ (137,943)	\$ -	\$ 6,014,694

E. Long-Term Obligations

The following schedule summarizes the changes in long-term debt during the year ended September 30, 2023:

	<u>Balance 10/1/2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 9/30/2023</u>	<u>Due Within One Year</u>
Revenue bonds					
Sales tax revenue bond, taxable series 2022	\$ 54,615,000	\$ -	\$ -	\$ 54,615,000	\$ -
Total bonds	54,615,000	-	-	54,615,000	-
Notes payable					
PEDC line of credit - 257250	-	1,179,150	-	1,179,150	1,179,150
Total notes payable	-	1,179,150	-	1,179,150	1,179,150
Accrued compensated absences					
Accrued compensated absences PEDC	147,693	-	26,316	121,377	30,344
Total accrued compensated absences	147,693	-	26,316	121,377	30,344
Total outstanding debt	\$ 54,762,693	\$ 1,179,150	\$ 26,316	\$ 55,915,527	\$ 1,209,494

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

F. Notes and Bonds Payable

Long-term notes and bonds payable outstanding on September 30, 2023, is comprised of the following:

Debt Type	Series	Interest Rate(s)	Date of Maturity	Original Issuance	Balance as of October 1, 2022	Debt Issuances Maturity Info	
						Deductions	Outstanding As of September 30, 2023
PEDC line of credit 257250	2023	3.75%	11/1/2030	1,179,150	1,179,150	-	1,179,150
Sale tax revenue bond	2022	4.54%	8/15/2046	54,615,000	54,615,000	-	54,615,000
				<u>\$ 55,794,150</u>	<u>\$ 55,794,150</u>	<u>\$ -</u>	<u>\$ 55,794,150</u>

Debt service requirements for note payable on September 30, 2023, are as follows:

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Total
2024	-	2,272,567	2,272,567
2025	1,645,000	2,272,567	3,917,567
2026	1,690,000	2,224,500	3,914,500
2027	1,745,000	2,173,530	3,918,530
2028-2032	9,630,000	9,952,211	19,582,211
2033-2037	11,585,000	7,994,624	19,579,624
2038-2042	14,325,000	5,266,070	19,591,070
2043-2046	13,995,000	1,663,413	15,658,413
	<u>\$ 54,615,000</u>	<u>\$ 33,819,482</u>	<u>\$ 88,434,482</u>

G. Restricted Assets

Restricted Assets as of September 30, 2023, are as follows:

<u>Governmental Funds</u>	
Debt service	5,965,346
Small business loan program	<u>478,383</u>
Total restricted assets	<u>\$ 6,443,730</u>

H. Leases

PEDC is a lessor in a building lease. The lease term includes the noncancelable period of the contract plus any potential lease extension option reasonably certain to be exercised. The lease term is for 60 months with payments of \$4,480 due monthly through February 2028. An incremental borrowing rate of 3.800% was used for discounting the lease terms to determine the initial lease receivable and related deferred inflow of resources.

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

H. Leases (Continued)

PEDC recognized lease revenue of \$368,991 during the year. Lease payments expected to be collected in subsequent years are as follows:

Year Ended September 30,	Payment	Principal	Interest
2024	\$ 53,760	\$ 46,120	\$ 7,640
2025	53,760	47,904	5,856
2026	53,760	49,756	4,004
2027	53,760	51,680	2,080
2028	26,880	26,584	296
	<u>\$ 241,920</u>	<u>\$ 222,044</u>	<u>\$ 19,876</u>

IV. OTHER INFORMATION

A. Risk Management

The PEDC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees (workman's compensation), and natural disasters. The PEDC is included in the City's insurance policy. During the fiscal year, the City obtained general liability coverage at a cost that is economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims more than acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss.

There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years. A copy of TML's Comprehensive Annual Report may be obtained by request at the following address:

Texas Municipal League
1821 Rutherford Lane, Suite 400
Austin, TX 78754-5128

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

IV. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

1. Health Care Coverage

The PEDC is included in the City's health care coverage. During the fiscal year, employees of the City were covered by a health insurance plan (the Plan) with United Health Care. The City offers 2 plans, the basic and the premium, the tables below represent employee cost for both plans.

Basic:

Coverage Type	Monthly Cost to Employee	Monthly cost to City	Total Monthly Cost
Employee Only	\$ -	\$ 149.74	\$ 149.74
Employee and Spouse	\$ 206.08	\$ 149.74	\$ 355.82
Employee and Child(ren)	\$ 189.25	\$ 149.74	\$ 338.99
Employee and Family	\$ 408.28	\$ 149.74	\$ 558.02

Premium:

Coverage Type	Monthly Cost to Employee	Monthly cost to City	Total Monthly Cost
Employee Only	\$ 16.97	\$ 149.74	\$ 166.71
Employee and Spouse	\$ 239.62	\$ 149.74	\$ 389.36
Employee and Child(ren)	\$ 221.42	\$ 149.74	\$ 371.16
Employee and Family	\$ 458.05	\$ 149.74	\$ 607.79

B. Pension Plan

1. Plan Description

The PEDC is included as part of the City's pension plan. The City provides pension benefits for all its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS. More details of the City's plan are included in the City's Annual Comprehensive Financial Report

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS's website at www.TMRS.com.

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

IV. OTHER INFORMATION (Continued)

B. Pension Plan (Continued)

1. Plan Description (Continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2022	Plan Year 2023
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (express as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

C. Land Available for Sale

During FY 2011-2012, the City and PEDC entered into an agreement to buy land for economic development purposes. During that same year, the City Commission approved to contribute all land that had been purchased to the PEDC; the transfer of all land titles was completed as of September 30, 2013. Per GASB standards, land available for sale should be recorded at a lower cost or net realizable value (NRV). The balance of land available for development is recorded as land available for sale in the PEDC general fund.

The summary land transactions are stated on the following table:

Project/Land	NRV Recorded 9/30/2022	Added/ (Removed)	Adjustment	Gain/(Loss) on Appraised Value	NRV Recorded 9/30/2023
Jackson Development Project	\$ 1,240,000	\$ -	\$ -	\$ -	\$ 1,240,000
Produce Park	420,012	(420,012)	-	-	-
Produce Park Phase 1, lot 6	237,109	(237,109)	-	-	-
Produce Park Phase 1, lot 27	255,993				255,993
Old Texan Hotel	1,107,686				1,107,686
Water Reservoir Commercial Portion	750,000	-	-	-	750,000
Total	\$ 4,010,800	\$ (657,121)	\$ -	\$ -	\$ 3,353,679

Pharr Economic Development Corporation II, Inc.
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

IV. OTHER INFORMATION (Continued)

D. Commitments

PEDC has a consulting services agreement with the Greater Pharr Chamber of Commerce (Chamber). Under this agreement, PEDC has committed to pay the Chamber \$150,000 per year in exchange for services such as supportive ministerial, marketing, professional, and consulting services. The agreement will continue to extend for additional one-year terms until either party terminates the agreement.

E. New Accounting Principles

In fiscal year 2023, GASB Issued Statement No 100 and 101, it summarized as follows:

GASB Statement 100, the objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Effective for fiscal years after June 15, 2023, and all reporting thereafter. PEDC is currently evaluating the impact of the new statement on PEDC financial statements.

GASB Statement 101, the objective of this statement is to better meet the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences. Effective for fiscal year after December 15, 2023, and all reporting periods thereafter. PEDC is currently evaluating the impact of the new statement on PEDC financial statements.

The following pronouncements were also issued by GASB but not applicable to PEDC as of September 30, 2023.

- GASB Statement No. 92, Omnibus 2020
- GASB Statement No. 93, Replacement of interbank offered rates.
- GASB Statement No. 94, Public-Private and public-Public Partnership and availability payment arrangements
- GASB Statement No. 96, Subscription-Based information technology arrangements.
- GASB Statement No. 97, Certain Component unit Criteria, and accounting and financial reporting for internal revenue code section 457 deferred compensation plans.

F. Subsequent events

The PEDC has evaluated subsequent events through December 18, 2024, the date on which the financial statements were available to be issued. On January 19, 2024, the PEDC will issue \$5,000,000 in Pharr Economic Development Corporation II Sales Tax Revenue Note (2016 Line of Credit Loan Renewal), Series 2024 to be used as working capital to be used to promote local economic development and stimulate business and commercial activity in the City of Pharr, Texas.

THIS PAGE LEFT BLANK INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

PHARR ECONOMIC DEVELOPMENT CORPORATION II, INC.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
General Sales and Use Taxes	\$ 7,602,078	\$ 7,602,078	\$ 7,261,860	\$ (340,218)
Investment Earnings	272,731	272,731	272,731	-
Other Revenue	368,991	368,991	368,991	-
Total Revenues	8,243,800	8,243,800	7,903,582	(340,218)
EXPENDITURES:				
Current:				
General Government	8,243,800	8,243,800	24,558,504	(16,314,704)
Debt Service:				
Interest on Debt	-	-	2,298,664	(2,298,664)
Total Expenditures	8,243,800	8,243,800	26,857,168	(18,613,368)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(18,953,586)	(18,953,586)
OTHER FINANCING SOURCES (USES):				
Issuance of Debt	-	-	1,179,150	1,179,150
Transfers In	-	-	12,522,629	12,522,629
Transfers Out	-	-	(2,010,800)	(2,010,800)
Other (Uses)	-	-	(150,000)	(150,000)
Total Other Financing Sources (Uses)	-	-	11,540,979	11,540,979
Net Change	-	-	(7,412,607)	(7,412,607)
Fund Balance - October 1 (Beginning)	23,088,626	23,088,626	23,088,626	-
Prior Period Adjustment	-	-	155,973	155,973
Fund Balance - September 30 (Ending)	\$ 23,088,626	\$ 23,088,626	\$ 15,831,992	\$ (7,256,634)

REPORTS REQUIRED UNDER GOVERNMENT AUDITING STANDARDS

THIS PAGE LEFT BLANK INTENTIONALLY

Raul Hernandez & Company, P.C.

Certified Public Accountants
5402 Holly Rd., Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

**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***

To the Board of Directors
Pharr Economic Development Corporation

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 the major fund, of Pharr Economic Development Corporation (Pharr EDC) , as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Pharr EDC's basic financial statements, and have issued our report thereon dated December 18, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pharr EDC'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 the Pharr EDC's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pharr EDC'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item, 2023-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pharr EDC'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*.

Pharr EDC's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Pharr EDC's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Pharr EDC's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Raul Hernandez & Company, P.C.

Corpus Christi, Texas

December 18, 2024

PHARR ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that were not considered material weakness?	Yes
Material noncompliance to financial statements noted?	No

PHARR ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023

Section I – Financial Statement Findings

Reference Number 2023-001	Monthly Account Analysis and Year-End Closing
Criteria:	Controls relative to timely close-out of financial statements at year-end should be in place to provide management with the necessary financial information to make appropriate decisions, and to ensure compliance with federal, state and local reporting deadlines.
Condition Found:	A significant amount of time lapsed after year-end, before the financial statements were closed-out. The general ledger required many audit adjustments and reclassifications to both current and prior period adjustments. Preparation of the year-end adjusting journal entries, schedules, recording of receipts, collections and reconciliation of several significant areas were not timely. Appraisals for land held for resale should be maintained to ensure the book values of properties are fairly stated. Adopted Budget should be reviewed and amended during the fiscal year when necessary. Bond Issuance requires following the terms outlined in the bond agreement and expenditures should be monitored/approved by the Pharr EDC accordingly, as the Pharr EDC is the bond issuer.
Context:	Condition was noted in performing standard audit procedures.
Cause:	Timely financial statements were not available during the year and at year-end. As such, monitoring of budget versus actual activity in the expenditures incurred and revenues realized may have been compromised, as well as other key decision-making processes, based on financial statements.
Effect:	Management assessments and financial decisions, and internal and external financial reporting may be inaccurate because of improperly maintained general ledgers.
Recommendation:	The City should review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements are prepared and available for management use, as well as for audit purposes.
Views of Responsible Officials:	See management's corrective action plan.

PHARR ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Reference Number 2022-001	Appraisals for Land Available for Sale
Criteria:	Appraisals for land held for resale should be maintained to ensure the book values of properties are fairly stated. The prior year note disclosure in the financial statements for land available for sale said, "appraisals on land will be done every two years, which began in the September 30, 2013 fiscal year."
Condition Found:	We requested a copy of the most recent appraisal for land held for sale. For properties labeled as Jackson Development Project, the most recent appraisal provided by management was dated December 2012. For properties labeled as Produce Park, Water Reservoir and Old Texan Hotel, management was unable to provide an appraisal.
Context:	Observations were noted during review of land available for sale.
Cause:	Appraisals on land available for sale are not conducted every two years as indicated in the prior year notes to the financial statements.
Effect:	The lack of current appraisals on land held for resale may increase the risk of misstatement in the financial statements.
Recommendation:	We recommend management obtain appraisals periodically on land held for resale to ensure book value is fairly stated.
Status of Prior Year Finding:	See current year finding 2023-001.

PHARR ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Reference Number 2022-002	Receivables
Criteria:	To ensure receivable balances are fairly stated, they should be continuously monitored and evaluated for collectability. If deemed uncollectible, balances should be reserved or written off.
Condition Found:	Old outstanding receivables were not monitored to ensure balances were collected timely or, if deemed uncollectible, to write off such balances. We inquired about receivable balances totaling \$43,967 that had little to no recent collection activity. Upon review by management, these balances were deemed uncollectible and written off.
Context:	Condition was identified as part of standard audit procedures related to receivables. Of the total balance, \$36,918 had been outstanding since 2016 or prior.
Cause:	Receivable balances were not evaluated for collectability.
Effect:	The lack of continuous monitoring and evaluation of collectability of receivables may result in misstatements. A risk exist that uncollectible balances may remain on the books.
Recommendation:	We recommend management implement internal controls to ensure receivables are evaluated and balances adjusted accordingly to ensure account balances are fairly stated.
Status of Prior Year Finding:	We consider this finding to be resolved as of September 30, 2023.

PHARR ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Reference Number 2022-003	Budget
Criteria:	The Pharr EDC adopts a budget annually before the start of the fiscal year. As circumstances change during the fiscal year, the budget should be amended. Budget amendments should be presented to the board of directors for approval.
Condition Found:	We noted the initial approved budget for fiscal year 2022 was not amended to reflect the incurrence of significant transactions during the fiscal year. For example, the original budget showed budgeted economic development expenditures totaling \$3,067,200 whereas actual expenditures incurred during the fiscal year totaled \$43,328,525. The significant difference was primarily due to unbudgeted fiber internet infrastructure construction costs incurred during the fiscal year. Additionally, the original budget showed budgeted other financing sources for the issuance of debt for \$12,000,000 whereas the actual issuance of debt was \$54,615,000. Pharr EDC issued more debt than was budgeted.
Context:	Condition was noted in reviewing the budget to actual schedule.
Cause:	A budget was not amended during the year to reflect updated anticipated events or transactions.
Effect:	The lack of amendments to the budget for significant events or transactions decreases the budget's effectiveness to be used for financial control and monitoring.
Recommendation:	We recommend budget amendments be taken to the board of directors for significant anticipated events and transactions. We also recommend the budget be amended accordingly to present a more accurate comparison between budget to actual to assist management in using the budget as a financial monitoring tool.
Status of Prior Year Finding:	See current year finding 2023-001

PHARR ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Reference Number 2022-004	Oversight of Bond Expenditures
Criteria:	The Pharr EDC issued bonds to be used for costs associated with the construction of high-speed fiber internet infrastructure throughout the City. As the issuer of these bonds, the Pharr EDC should review and approve such expenditures to ensure all costs comply with the terms and allowed uses under the bond agreement.
Condition Found:	We noted all invoices associated with the high-speed fiber internet infrastructure project are received directly by the City of Pharr finance department and are not presented for review and approval to Pharr EDC. As the issuer of the bonds from which these expenditures are paid from, Pharr EDC is ultimately responsible for compliance with the terms of the bond agreement.
Context:	Condition noted was identified based on discussions with management in gaining an understanding of Pharr EDC and its operations and internal controls.
Cause:	The high-speed fiber internet infrastructure project is an initiative of the City of Pharr. Pharr EDC is assisting the City in financing a portion of the project. As such, all transactions associated with the project flow through the City of Pharr finance department.
Effect:	As a separate legal entity responsible for compliance with its debt agreements, the lack of review and approval of expenditures may result in Pharr EDC's ability to perform its due diligence to ensure compliance with the terms of the debt agreement and allowable uses.
Recommendation:	We recommend Pharr EDC evaluate the current practice and implement controls to ensure all costs associated with the project are reviewed and approved.
Status of Prior Year Finding:	See current year finding 2023-001.

PHARR ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Reference Number 2022-005	Bond Compliance										
Criteria:	During fiscal year 2022, Pharr EDC issued the Pharr Economic Development Corporation Sales Tax Revenue Bonds, Taxable Series 2022. The closing memorandum outlines how the bond proceeds are to be distributed upon issuance. The distribution was as follows: <table> <tr> <td>Deposit to Construction Fund</td><td style="text-align: right;">\$47,000,000</td></tr> <tr> <td>Deposit to Capitalized Interest Fund</td><td style="text-align: right;">2,992,213</td></tr> <tr> <td>Deposit to Debt Service Reserve Fund</td><td style="text-align: right;">3,918,961</td></tr> <tr> <td>Issuance related expenses</td><td style="text-align: right;"><u>703,826</u></td></tr> <tr> <td>Total bond proceeds</td><td style="text-align: right;"><u>\$54,615,000</u></td></tr> </table> Additionally, the bond agreement outlines the flow of funds after issuance on an ongoing basis. Among other requirements, the Pharr EDC is required to create a Revenue Fund to be maintained as a separate account on the books of the Corporation. It must then deposit all pledged revenues (sales taxes) into the Revenue Fund and then apply those funds following the order of priority outlined in the bond agreement. Only after making such transfers in the order of priority outlined in the bond agreement, any money remaining in the Revenue Fund is to be considered surplus and may then be transferred into the general fund to be used for any lawful purpose.	Deposit to Construction Fund	\$47,000,000	Deposit to Capitalized Interest Fund	2,992,213	Deposit to Debt Service Reserve Fund	3,918,961	Issuance related expenses	<u>703,826</u>	Total bond proceeds	<u>\$54,615,000</u>
Deposit to Construction Fund	\$47,000,000										
Deposit to Capitalized Interest Fund	2,992,213										
Deposit to Debt Service Reserve Fund	3,918,961										
Issuance related expenses	<u>703,826</u>										
Total bond proceeds	<u>\$54,615,000</u>										
Condition Found:	We noted the \$47,000,000 that was required to be deposited into a separate Construction Fund was deposited and thus commingled with Pharr EDC's general operating bank account and accounted for in its general fund. Additionally, all pledged revenues (sales taxes) were deposited into Pharr EDC's general operating account. A Revenue Fund was not established as required and no additional transfers were made on an ongoing basis after bond issuance in the order of priority as outlined in the bond agreement.										
Context:	Condition was identified in testing compliance with debt covenants.										
Cause:	Pharr EDC did not establish all the required separate bank accounts or funds nor did it follow the flow of funds as outlined in the bond agreement.										
Effect:	The conditions noted results in noncompliance with the terms of the bond agreement.										
Recommendation:	We recommend Pharr EDC review the bond agreement and establish processes and procedures to ensure compliance with the terms of the bond agreement.										
Status of Prior Year Finding:	See current year finding 2023-001.										

PHARR ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023

Reference Number 2022-006	Pharr EDC Foundation – Separate Accounting
Criteria:	As Pharr EDC and Pharr EDC Foundation are two separate legal entities with its own different purpose and mission, each entity should maintain its own separate books and records.
Condition Found:	We noted the Pharr EDC Foundation, a legally separate entity from Pharr EDC, is accounted for combined with the books and records of Pharr EDC. All activity for both Pharr EDC and Pharr EDC Foundation is accounted for within Pharr EDC's general fund.
Context:	Condition was identified in discussion with management as part of obtaining an understanding of the entity.
Cause:	When the Pharr EDC Foundation was established, a separate set of books or a separate fund was not created to account for its activity separately from the Pharr EDC.
Effect:	Not maintaining separate accounting between Pharr EDC and Pharr EDC Foundation decrease the ability to properly monitor the financial condition of each entity.
Recommendation:	We recommend the accounting for each entity be maintained separately.
Status of Prior Year Finding:	We consider this finding to be resolved as of September 30, 2023.



Ambrosio Hernandez, MD
Chairman

Corrective Action Plan
Year End September 30, 2023

Board Members
Ramiro Caballero, MD
Ricardo Medina
Mario Lizcano
Reynaldo Perez
Marty Moore
Michael Pacheco

Reference Number 2023-001, Monthly Account Analysis and Year-End Closing

PEDC II's Management and City of Pharr Finance Department agree with the finding. PEDC Management, the City of Pharr Finance Department, and City Management will review internal controls related to this area to ensure that timely financial statements are prepared and available for management, use, as well as for audit purposes. Management is currently working to obtain updated appraisals for all properties it holds for sale and will develop a schedule to ensure future appraisals remain up to date. Management will ensure that any significant events or transactions which differ from the initial proposed budget are addressed in subsequent budget amendments and approved by the PEDC II Board of Directors and the City of Pharr's Board of Commissioners. Management will develop a Standard Operating Procedure to ensure compliance with the terms of bond agreements.



Pharr
Economic Development
Corporation



Victor Perez, M. Ed
President and CEO

Ambrosio Hernandez, MD
Chairman

Board Members

Ramiro Caballero, MD
Ricardo Medina
Mario Lizcano
Reynaldo Perez
Marty Moore
Michael Pacheco

Contact Persons responsible for corrective action:

Dr. Jonathan Flores - City Manager
118 S. Cage Blvd.
Pharr, Texas 78577
(956) 402-4100
Jonathan.flores@pharr-tx.gov

Victor Perez - Executive Director
1215 S. Cage Blvd.
Pharr, Texas 78577
Victor.perez@pharr-tx.gov

Jamison Merrick - Finance Director
118 S. Cage Blvd.
Pharr, Texas 78577
(956) 402-4150
Jamison.merrick@pharr-tx.gov