



TAX INCREMENT REINVESTMENT ZONE #2

A COMPONENT UNIT OF
CITY OF PHARR, TEXAS

AUDITED ANNUAL FINANCIAL REPORT
FY 22-23

TAX INCREMENT REINVESTMENT ZONE #2
AUDITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2023

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Independent Auditors' Report	1
	Management's Discussion and Analysis	4
	<u>Basic Financial Statements</u>	
	Government Wide Statements:	
A-1	Statement of Net Position	7
B-1	Statement of Activities	8
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	9
C-2	Statement of Revenues, Expenditures, and Changes in Fund Balance	10
	Notes to the Financial Statements	11
	<u>Required Supplementary Information</u>	
G-1	Schedule of Revenues, Expenses and Changes in Fund Balance - Budget and Actual	17
	<u>Internal Control/Compliance Section</u>	
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Bases on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18
	Schedule of Findings and Responses	20
	Schedule of Status of Prior Findings	22
	Corrective Action Plan	23

THIS PAGE LEFT BLANK INTENTIONALLY



FINANCIAL SECTION

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
City of Pharr Tax Increment Reinvestment Zone No. 2.

Report on the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, and the major fund of the City of Pharr Tax Increment Reinvestment Zone No. 2 (TIRZ #2), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the TIRZ #2'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 TIRZ #2, 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 TIRZ #2 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 TIRZ #2'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 TIRZ #2'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 TIRZ #2'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 TIRZ #2'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 18, 2024, on our consideration of the TIRZ #2'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 TIRZ #2's internal control over financial reporting and compliance.

Raul Hernandez & Company, P.C.

Corpus Christi, Texas

December 18, 2024

THIS PAGE LEFT BLANK INTENTIONALLY



MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

THIS PAGE LEFT BLANK INTENTIONALLY

Tax Increment Reinvestment Zone #2 Management's Discussion & Analysis

As management of the Tax Increment Reinvestment Zone #2 (TIRZ #2), we offer readers of TIRZ #2's financial statements this narrative overview and analysis of the financial activities of TIRZ #2 for the fiscal year ended September 30, 2023.

FINANCIAL HIGHLIGHTS

- Total net position for the TIRZ #2 shows a positive balance of \$2,397,688. This is an increase of \$464.4 thousand from last year's net position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are meant to serve as an introduction to the TIRZ #2's basic financial statements. The TIRZ's #2'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 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 TIRZ #2, in a manner like a private-sector business.

The Statement of Net Position presents information on all the TIRZ #2's assets, liabilities, and deferred inflows with the difference being 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 TIRZ #2 is improving or deteriorating.

The Statement of Activities presents information showing how TIRZ #2'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.

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. TIRZ #2, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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.

Tax Increment Reinvestment Zone #2 Management's Discussion & Analysis

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 the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

TIRZ #2 falls under the City budget process so when the City's budget is approved TIRZ #2's budget is approved as well. A budgetary comparison statement has been provided in the supplementary section of this report to demonstrate compliance with this budget.

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.

Government-Wide Financial Analysis

TIRZ #2's condensed Statement of Net Position along with last fiscal year's numbers is presented for comparison in the table below:

TIRZ #2'S Net Position

Table 1 - Dollars in Thousands

Assets	2023	2022
Current and other assets	\$ 3,399.8	\$ 2,622.2
Total Assets	3,399.8	2,622.2
Liabilities		
Current liabilities	942.1	689.0
Total Liabilities	942.1	689.0
Net Position		
Restricted	2,397.6	1,999.2
Total Net Position	\$ 2,397.6	\$ 1,999.2

**Tax Increment Reinvestment Zone #2
Management's Discussion & Analysis**

TIRZ #2's Changes in Net Position along with last fiscal year's numbers are presented for comparison in the table below:

Changes in Net Position

Table 2 - Dollars in Thousands

Revenues:	2023	2022
Tax - City	\$ 412.2	\$ 371.5
Tax - County	-	-
Investment Earnings	52.2	16.3
Total Revenues	464.4	387.8
Expenses:		
Audit Fees	-	10.0
Total Expenses	-	10.0
Excess of revenues over expenses	464.4	377.8
Net change in fund balance	464.4	377.8
Net position - beginning	1,933.2	1737.1
Prior period adjustments	-	(181.7)
Net position - ending	\$ 2,397.6	\$ 1,933.2

BUDGETARY HIGHLIGHTS

County allocation was not collected during FY 2023, TIRZ #2 is expected to collect full amount agreed upon in receivables.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of TIRZ #2's finances for all those with an interest in the TIRZ #2 finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to TIRZ #2, 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

TAX INCREMENT REINVESTMENT ZONE #2
A COMPONENT UNIT OF CITY OF PHARR, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

EXHIBIT A-1

	<u>Primary Government</u>
	<u>TIRZ #2</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,945,749
Accounts Receivable, Net	<u>394,065</u>
Total Assets	<u>3,339,814</u>
LIABILITIES	
Due to City of Pharr	548,061
Unearned Revenues	<u>394,065</u>
Total Liabilities	<u>942,126</u>
NET POSITION	
Restricted for Economic Development	<u>2,397,688</u>
Total Net Position	<u>\$ 2,397,688</u>

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

TAX INCREMENT REINVESTMENT ZONE #2
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	\$ -	\$ -	\$ -	\$ -
TOTAL PRIMARY GOVERNMENT	\$ -	\$ -	\$ -	-
General Revenues:				
Property Taxes				412,200
Investment Earnings				52,233
Total General Revenues				464,433
Change in Net Position				464,433
Net Position - Beginning				1,933,255
Net Position - Ending				\$ 2,397,688

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

TAX INCREMENT REINVESTMENT ZONE #2
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023

EXHIBIT C-1

	TIRZ #2
ASSETS	
Cash and Cash Equivalents	\$ 2,945,749
Accounts Receivable, Net	394,065
Total Assets	<u>\$ 3,339,814</u>
LIABILITIES	
Due to City of Pharr	\$ 548,061
Unearned Revenues	394,065
Total Liabilities	<u>942,126</u>
FUND BALANCE	
Restricted Fund Balance:	
Economic Development	<u>2,397,688</u>
Total Fund Balance	<u>2,397,688</u>
Total Liabilities and Fund Balance	<u>\$ 3,339,814</u>

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

TAX INCREMENT REINVESTMENT ZONE #2
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2023

EXHIBIT C-2

	TIRZ #2
REVENUES:	
Property Taxes	\$ 412,200
Investment Earnings	52,233
Total Revenues	<u>464,433</u>
EXPENDITURES:	
Current:	
Contractual Services	<u>-</u>
Total Expenditures	<u>-</u>
Net Change in Fund Balance	464,433
Fund Balance - October 1 (Beginning)	<u>1,933,255</u>
Fund Balance - September 30 (Ending)	<u><u>\$ 2,397,688</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

Tax Increment Reinvestment Zone #2
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

Tax Increment Reinvestment Zone #2 (TIRZ #2) – City commissioners expressed the City’s intent to create a TIRZ to support revitalization activities for the Pharr redevelopment project. On November 17, 2015, the City Commission of Pharr passed and approved the creation of TIRZ #2. The zone is projected to terminate on December 31, 2035.

Hidalgo County agreed to participate in the TIRZ by contributing 50% of the revenues generated from the County M&O as assessed and collected on the tax increment for the respective tax year.

B. Reporting Entity

GASB Statement No. 14, “The Financial Reporting Entity,” as amended by GASB Statement No. 39 and GASB Statement No. 61, “Determining Whether Certain Organizations Are Component Units,” provide guidance for determining on whether the entity should be reported as blended or discretely presented. GASB Statement No. 14 sets forth financial accountability as the basic criterion for inclusion of a governmental unit in a governmental reporting entity.

The TIRZ #2 is considered a blended component unit because of its relationship with the City, the City contributes 50% of their revenues and any changes on the entity will need to be approved by the City Commission, and all documentation is prepared by City staff and approved by the City Manager.

Financial statements for TIRZ #2 issued by the City can be obtained by request at the following address:

Tax Increment Reinvestment Zone #2
Attn: Finance Director
118 S. Cage Blvd., 2nd Floor
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 TIRZ #2.

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 instead as general revenues.

Tax Increment Reinvestment Zone #2
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)

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

The financial statements of TIRZ #2 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, TIRZ #2 considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. All other governmental fund revenues are recognized when received.

E. Fund Types and Major Funds

Governmental Funds

TIRZ #2 reports the following governmental funds:

- General Fund: TIRZ #2's only fund and is used to account for all TIRZ #2 financial activities.

F. Assets, Liabilities and Net Position

TIRZ #2 follows City of Pharr accounting policies in regards assets, liabilities, and Net Position.

1. Cash and Investments.

All funds collected by any City Department authorized to accept cash, check, or credit card payments shall be processed by personnel authorized by the Department Head.

All bank accounts will be opened, closed, or consolidated as per the recommendation of the Finance Director.

All City and grant funds shall be deposited in Board of Commissioners-approved depositories by the Finance Director or authorized representative(s).

All cash is deposited into Lone Star National Bank. As of September 30, 2023, TIRZ #2 does not hold any cash investments other than interest earned from the bank account.

2. Net Position

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outside parties for use for a specific purpose.

Tax Increment Reinvestment Zone #2
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. Fund Balance

TIRZ #2 follows GASB statement No. 54 "Fund Balance Reporting and Governmental Type Definitions," which provides a more structured classification of fund balance and improves the usefulness of fund balance reporting to the users of TIRZ #2 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, non-current advances to other funds that are not expected to be collected in the next fiscal year, and the principal (corpus) of an endowment fund. TIRZ #2 does not have any non-spendable funds.

In addition to non-spendable fund balance, GASB No. 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

-Restricted: Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

-Committed: Fund balances that contain self-imposed constraints of the government from its highest level of decision-making authority. The responsibility to commit funds rests with the TIRZ #2 governing members, their board members. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. TIRZ #2 does not have any committed funds.

-Assigned: Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. At September 30, 2023, no fund balances were assigned.

-Unassigned: Fund balance of the general fund that is not constrained for any particular purpose. This is also where negative amounts from the other categories of fund balance are recognized.

Tax Increment Reinvestment Zone #2
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

TIRZ #2 follows the procedures outlined below in establishing budgetary data reflected in the financial statements:

Annual budgets are legally adopted for TIRZ #2 fund with revenue and expense/expenditure activity. The TIRZ #2 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 is required to submit to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following October 1.

The appropriate budget is prepared by fund, function, and department. Transfers of appropriations between funds require the approval of the Board of Commissioners. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

At any time during the fiscal year, the City Manager can reallocate expenditures within a fund without the approval of the Board of Commissioners. However, any revisions to the budget which increase the total budgeted expenditures/expenses within any fund must be approved by the Board of Commissioners of the City.

B. Budget Basis of Accounting

TIRZ #2 prepares its annual budget on a basis (budget basis, which slightly differs from generally accepted accounting principles (GAAP Basis). The major differences between budget and GAAP basis are debt service transactions, capital outlay purchases, and the recording of bond/loan proceeds.

The budget and all transactions are presented in accordance with the TIRZ #2'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 budget is based on certified report numbers from Hidalgo County; from there the County allocates 50% for the M&O collected in the TIRZ zone and the City contributes 50% of the M&O taxes collected.

C. Prior Period Adjustment

A prior period adjustment (PPA) was not needed for the year end September 30, 2023.

Tax Increment Reinvestment Zone #2
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

A. Deposits

TIRZ #2 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 TIRZ #2's 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.

On September 30, 2023, the carrying amount of all the TIRZ #2's deposits were \$2,945,749. The TIRZ #2 has one (1) depository account: Lone Star National Bank (LSNB).

Custodial credit risk is the risk that in the event of a bank failure, the TIRZ #2's deposits may not be returned to it. All deposits from this entity are included in the City of Pharr's collateral reports. The table below shows all City depository accounts including the TIRZ #2, as you see TIRZ's #2 money was not at risk during the fiscal year.

	Balance
<u>LSNB Depository Account-City of Pharr</u>	<u>September 30, 2023</u>
Insured	\$ 250,000
Security collateral issued by pledging bank's trust - LoneStar National Bank	117,030,623
Security collateral issued by pledging bank's trust - Texas Regional Bank	37,508,714
(over-collateralized)/under-collateralized	<u>(6,240,898)</u>
Total Deposits	<u>\$ 148,548,439</u>

B. Receivables

At September 30, 2023, TIRZ #2 shows a receivable from Hidalgo County for their agreed property tax contribution. The total amount was \$394,065.

Property Tax Receivable with 8% uncollectable	
Property Tax	\$425,590
Allowance for uncollectable	<u>(31,525)</u>
	<u>\$394,065</u>

C. Payables

Incentives for economic development on the TIRZ #2 zone from FY 2021 were paid by City of Pharr, TIRZ #2 will reimburse the City for the expenditure. The payable balance to the City of Pharr on September 30, 2023, is \$548,061.

Tax Increment Reinvestment Zone #2
A Component Unit of the City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2023

D. GASB Statement No. 96-SBITA

The TIRZ #2 implemented GASB 96 for reporting subscription-based information technology arrangements (SBITAs) during this reporting period. A SBITA is defined as a contract that conveys control over another entity's IT software as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a SBITA, it must meet the definition of a "long-term" SBITA provided in GASB 96. The right-to-use SBITA liability is reported in the government-wide statements. The SBITA liability is calculated as the present value of the reasonably certain expected payments made over the term of the contract and the interest included in the SBITA payments is recorded as an expense. There were no SBITA material to the financial statements that were recorded during the year audited.

E. Subsequent Events

The TIRZ #2 has evaluated subsequent events through December 18, 2024, the date on which the financial statements were available to be issued.



REQUIRED SUPPLEMENTARY INFORMATION

TAX INCREMENT REINVESTMENT ZONE #2
A COMPONENT UNIT OF THE CITY OF PHARR, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2023

	<u>Budgeted Amounts</u>		Actual Amounts (GAAPBASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Property Taxes	\$ 665,200	\$ 665,200	\$ 412,200	\$ (253,000)
Investment Earnings	-	-	52,233	52,233
Total Revenues	665,200	665,200	464,433	(200,767)
EXPENDITURES:				
Current:				
Contractual Services	-	-	-	-
Total Expenditures	-	-	-	-
Net Change	665,200	665,200	464,433	(200,767)
Fund Balance - October 1 (Beginning)	1,933,255	1,933,255	1,933,255	-
Fund Balance - September 30 (Ending)	\$ 2,598,455	\$ 2,598,455	\$ 2,397,688	\$ (200,767)



INTERNAL CONTROL/COMPLIANCE SECTION

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

City of Pharr Tax Increment Reinvestment Zone No. 2

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 City of Pharr Tax Increment Reinvestment Zone No. 2 (TIRZ #2), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Chamber'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 TIRZ #2'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 TIRZ #2's internal control. Accordingly, we do not express an opinion on the effectiveness of the TIRZ #2'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 items, 2023-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TIRZ #2'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*.

TIRZ #2's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the TIRZ #2's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The TIRZ #2'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

TAX INCREMENT REINVESTMENT ZONE #2
A COMPONENT UNIT OF CITY OF PHARR, TX
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

TAX INCREMENT REINVESTMENT ZONE #2
A COMPONENT UNIT OF THE CITY OF PHARR, TX
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

SECTION I – FINANCIAL STATEMENT FINDINGS

Reference Number 2023-001

TIRZ #2 – Prolonged Period of Inactivity

Criteria:

The Tax Increment Reinvestment Zone (TIRZ) was established with the intent to improve infrastructure to promote economic development within the designated area. The City of Pharr TIRZ #2 (TRIZ #2) should seek to achieve its intended purpose.

Condition Found:

TIRZ #2 has shown a prolonged period of inactivity with no significant progress in improving infrastructure and promoting economic development within the zone. (Repeat finding from 2022)

Context:

These conditions were noted in performing our standard audit procedures.

Cause:

TIRZ #2 has not invested incremental tax revenues generated to make infrastructure improvements as was intended in the TIRZ agreement.

Effect:

The continued prolonged period of inactivity results in TIRZ #2 being unable to achieve its intended purpose.

Recommendation:

We recommend management review the TIRZ agreement and analyze the original goals, evaluate current needs within the designated zone and develop a plan for being active in achieving the TIRZ's objectives.

Views of Responsible Officials:

See management's corrective action plan.

**TAX INCREMENT REINVESTMENT ZONE #2
A COMPONENT UNIT OF THE CITY OF PHARR, TX
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Reference Number 2022-001

TIRZ #2 – Prolonged Period of Inactivity

Criteria:	The Tax Increment Reinvestment Zone (TIRZ) was established with the intent to improve infrastructure to promote economic development within the designated area. The City of Pharr TIRZ #2 (TRIZ #2) should seek to achieve its intended purpose.
Condition Found:	TIRZ #2 has shown a prolonged period of inactivity with no significant progress in improving infrastructure and promoting economic development within the zone.
Context:	Finding was noted as part of obtaining an understanding of the entity.
Effect:	The continued prolonged period of inactivity results in TIRZ #2 being unable to achieve its intended purpose.
Cause:	TIRZ #2 has not invested incremental tax revenues generated to make infrastructure improvements as was intended in the TIRZ agreement.
Recommendation:	We recommend management review the TIRZ agreement and analyze the original goals, evaluate current needs within the designated zone and develop a plan for being active in achieving the TIRZ's objectives.
Status of Prior Year Finding:	See current year finding 2023-001.

Reference Number 2022-002

Revenue Recognition – Property Taxes

Criteria:	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 this method, revenues are recognized as soon as they are both measurable and available. Revenues are measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers collections within 60 days of the end of the fiscal year to be revenues.
Condition Found:	City of Pharr TRIZ #2 (TRIZ #2) recognized revenue for amounts that did not meet the availability criteria as outlined above. Certain balances due from Hidalgo County that were not collected by TIRZ #2 within 60 days of the end of the fiscal year were incorrectly recognized as revenue.
Context:	Condition was noted as part of audit procedures related to revenues and receivables.
Effect:	Improper revenue recognition resulted in material misstatement which required an audit adjustment.
Cause:	TIRZ #2 recognized revenues as amounts became measurable, but failed to consider whether funds were available as required by generally accepted accounting principles.
Recommendation:	We recommend TIRZ #2 recognize revenue in accordance with generally accepted accounting principles 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



**MAYOR Ambrosio
Hernandez, MD**

COMMISSIONERS Michael Pacheco | Roberto "Bobby" Carrillo | Ramiro Caballero, MD | Daniel Chavez | Ricardo Medina | Itza Flores

Corrective Action Plan

Year End September 30, 2023

Reference Number 2023-001, TIRZ #2 Prolonged Period of Inactivity.

Senior Leaders agree with this finding. The office of the City Manager will ensure TIRZ #1 board meetings are scheduled at least twice a year to ensure that there are no longer prolonged periods of inactivity.

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

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

THIS PAGE LEFT BLANK INTENTIONALLY