

**Development Corporation of Mercedes, Inc.**

**Agenda**

**July 30, 2020 at 11:30AM**

**320 S. Ohio**

**Development Corporation of Mercedes, Inc.**

**Agenda**

**July 30, 2020 11:30AM**

**320 S Ohio**

NOTICE, is hereby given that the Development Corporation of Mercedes, Inc. will be holding a **VIRTUAL Special Called Meeting on Thursday, July 30, 2020 at 11:30AM** at URL: <https://global.gotomeeting.com/join/667582061> /PHONE: 1 877 568 4106 / ACCESS CODE: 667-582-061, for the purpose of considering and taking formal action regarding the following items:

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1. Call meeting to order
2. Discussion and Action: FY18-19 Audit, Carr, Riggs & Ingram
3. Adjournment

The Board of Directors reserves the right to go into Executive Session at any time during the meeting to consult with its attorney in accordance with Section 551.071, deliberate the purchase or sale of real property in accordance with Section 551.072, deliberate personnel matters in accordance with Section 551.074, and/or deliberate economic development negotiations in accordance with Section 551.012. This notice is given in accordance with Vernon's Texas Code Annotated, Texas Government Code, Section 551.001 et seq. I hereby certify this Notice of a Meeting of the Development Corporation of Mercedes was posted in accordance with the Open Meetings Act on the outside bulletin board at City Hall of the City of Mercedes, located at 400 S Ohio, visible and accessible to the general public during and after working hours. This notice was posted on the 24th day of July 2020 at 4:00PM and will remain so posted continuously for at least 72 hours preceding the scheduled time of this meeting in accordance with Chapter 551 of the Texas Government Code.

ATTEST:

  
Melissa Ramirez, Development Corporation of Mercedes

## **1. Call meeting to order**

## **2. Discussion and Action: FY 18-19 Audit, Car, Riggs & Ingram**



Required Communications for the  
Board of Directors  
and Management of

**Development Corporation  
Of Mercedes**

July 22, 2020

July 22, 2020

To the Board of Directors and management of  
Development Corporation of Mercedes

We are pleased to present the results of our audit of the financial statements of the Development Corporation of Mercedes ("DCM") for the year ended September 30, 2019.

This report to the Board of Directors and management summarizes our audit, the reports issued and various analyses and observations related to DCM's accounting and reporting. The document also contains DCM's communications required by our professional standards.

The audit was designed, primarily, to express an opinion on DCM's financial statements for the fiscal year ended September 30, 2019. We considered DCM's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the Development Corporation of Mercedes, expect. We received the full support and assistance of DCM's personnel.

At Carr, Riggs & Ingram, LLC (CRI), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

This report is intended solely for the information and use of the Board of Directors, DCM's management and others within DCM and should not be used by anyone other than these specified parties.

We appreciate this opportunity to meet with you. If you have any questions or comments, please call Aaron Rios at 956-686-3701 or e-mail at [arios@cricpa.com](mailto:arios@cricpa.com).

Very truly yours,



Aaron Rios, CPA

## Engagement Objectives

As discussed with management during our planning process and communicated to the Board of Directors in our engagement letter dated March 6, 2020, our audit plan represented an approach responsive to the assessment of risk for DCM. Specifically, we planned and performed our audit to:

- Perform audit services in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States in order to express an opinion on DCM's financial statements for the years ended September 30, 2019;
- Communicate directly with DCM and management regarding the results of our procedures;
- Address with DCM and management any accounting and financial reporting issues;
- Anticipate and respond to concerns of DCM and management; and
- Other audit-related projects as they arise and upon request.

## Required Communications

We have audited the financial statements of governmental activities and each major fund of Development Corporation of Mercedes (DCM) for the year ended September 30, 2019, and have issued our report thereon dated July 22, 2020. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<b>Auditors' responsibility under Generally Accepted Auditing Standards</b>	<p>As stated in our engagement letter dated March 6, 2020 our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP) and Government Auditing Standards issued by the Comptroller General of the United States. Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of DCM. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
<b>Client's responsibility</b>	<p>Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position and results of operations. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.</p>
<b>Planned scope and timing of the audit</b>	<p>Our initial audit plan was not significantly altered during our fieldwork.</p>
<b>Management judgments and accounting estimates</b> <i>The process used by management in forming particularly sensitive accounting estimates and the basis for the auditors' conclusion regarding the reasonableness of those estimates.</i>	<p>Please see the following section titled "Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality."</p>
<b>Potential effect on the financial statements of any significant risks and exposures</b>	<p>No such risks or exposures were noted.</p>



## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p><i>Major risks and exposures facing DCM and how they are disclosed.</i></p>	
<p><b>Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditors' judgment about the quality of accounting principles</b></p> <ul style="list-style-type: none"> <li><i>The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;</i></li> <li><i>The auditor should also discuss the auditors' judgment about the quality, not just the acceptability, of DCM's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements, including disclosures;</i></li> <li><i>Critical accounting policies and practices applied by DCM in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations;</i></li> <li><i>Alternative treatments within GAAP for accounting policies and practices related to material items, including recognition, measurement, presentation and disclosure alternatives, that have been discussed with management during the current audit period, the ramifications of the use of such alternative disclosures</i></li> </ul>	<p>Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by DCM are described in Note 2 to the financial statements.</p> <p>As of September 30, 2019, DCM has implemented GASB Statement No. 88, <i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>. The new standard improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.</p> <p>We noted no transactions entered into by DCM during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<i>and treatments, and the treatment preferred by the auditor; Furthermore, if the accounting policy selected by management is not the policy preferred by us, discuss the reasons why management selected that policy, the policy preferred by us, and the reason we preferred the other policy.</i>	
<b>Significant difficulties encountered in the audit</b> <i>Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.</i>	None.
<b>Disagreements with management</b> <i>Disagreements, whether or not subsequently resolved, about matters significant to the financial statements or auditors' report. This does not include those that came about based on incomplete facts or preliminary information.</i>	None.
<b>Other findings or issues</b> <i>Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.</i>	None.
<b>Matters arising from the audit that were discussed with, or the subject of correspondence with, management</b> <i>Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.</i>	None.
<b>Corrected and uncorrected misstatements</b> <i>All significant audit adjustments arising from the audit, whether or not recorded by DCM, which could individually or in the aggregate have a significant effect on the financial statements. We should also inform those charged with governance about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that</i>	<p>Please see the following section titled "Summary of Audit Adjustments."</p> <p>The uncorrected misstatements have been attached to the "Management Representation Letter".</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<i>contributed to the misstatements should be identified.</i>	
<b>Major issues discussed with management prior to retention</b> <i>Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.</i>	We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.
<b>Consultations with other accountants</b> <i>When management has consulted with other accountants about significant accounting or auditing matters.</i>	We are not aware of any consultations with other accountants.
<b>Written representations</b> <i>A description of the written representations the auditor requested (or a copy of the representation letter).</i>	We have requested certain representations from management. See "Management Representation Letter" section.
<b>Internal control deficiencies</b> <i>Any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditors' attention during the audit.</i>	See "Internal Control Findings" section.
<b>Fraud and illegal acts</b> <i>Fraud involving senior management, or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditors' attention involving senior management and any other illegal acts, unless clearly inconsequential.</i>	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p><b>Supplementary information in relation to the financial statements as a whole</b></p> <p><i>The auditors' responsibility for supplementary information accompanying the financial statements, as well as any procedures performed and the results.</i></p>	<p>We were engaged to report on the required supplementary information and other supplementary information, which accompanies the financial statements. With respect to this required supplementary information and other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The 2018 amounts which are included in the other supplementary information are presented for comparative purposes and were audited by other auditors whose report dated December 27, 2019 expressed an unmodified opinion on those statements in relation to the 2018 basic financial statements taken as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. This section has not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the introductory section.</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p><b>Other information in documents containing audited financial statements</b></p> <p><i>The external auditors' responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.</i></p>	<p>Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> <li>• Such information is materially inconsistent with the financial statements; and</li> <li>• We believe such information represents a material misstatement of fact.</li> </ul> <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>

## Accounting Policies, Judgements and Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of DCM's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The Board of Directors and Management may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS AND SENSITIVE ESTIMATES	COMMENTS ON QUALITY OF ACCOUNTING POLICY AND APPLICATION
Capital Assets-Depreciation	Capital assets are valued at cost. A capitalization policy states all property and equipment costs with an estimated useful life in excess of 1 year and cost of \$5,000 or above should be capitalized. Depreciation on all capital assets, excluding land and construction in progress, is calculated on the straight-line method over estimated useful lives. The costs of normal maintenance repairs that do not add to the asset or materiality extend asset lives are not capitalized.	Yes	Management's estimate of the annual depreciation expense is based on the useful lives of the assets and their respective book values. We evaluated the key factors and assumptions used to develop the annual depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.	Our procedures did not identify any instances of non-compliance with applicable accounting guidelines.

## Accounting Policies, Judgements and Sensitive Estimates & CRI Comments on Quality

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS AND SENSITIVE ESTIMATES	COMMENTS ON QUALITY OF ACCOUNTING POLICY AND APPLICATION
Pensions and Other Post-Employment Benefits – Net Pension / OPEB Liability and related Deferred Outflows and Inflows of Resources	DCM participates in the pension and OPEB plan offered by the City of Mercedes. The City is a member employer of the Texas Municipal Retirement System (TMRS) and records its proportionate share of the pension and OPEB liability and related accounts. Benefit payments are recognized when due and payable in accordance with the benefit terms.	Yes	The City relies on valuations from the Pension system's actuary for the estimated value the City's net pension liability and OPEB liability. The actuarial valuation is based on financial information, utilizing assumptions developed by management. We evaluated the key factors and assumptions used to record the City's net pension liability, OPEB liability and related balances in determining that it is reasonable in relation to the financial statements taken as a whole.	Our procedures did not identify any instances of non-compliance with applicable accounting guidelines.

Certain financial statement disclosures are particularly sensitive because their significant to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The prior period adjustment disclose in Note 3 which describe an entry made to correct beginning net position.
- The commitments that DCM has as of September 30, 2019 disclosed in Note 9 of the financial statements
- The subsequent event disclosed in Note 13, which describes the unique COVID-19 situation and its possible impact in operations.

## Summary of Audit Adjustments

During the course of our audit, we accumulate differences between amounts recorded by DCM and amounts that we believe are required to be recorded under GAAP reporting guidelines. Those adjustments are either recorded (corrected) by management or passed (uncorrected). During the fiscal year ended September 30, 2019, several adjustments were proposed and corrected. See "Summary of Audit Adjustments" on the following page.

DCM has elected not to record other certain adjustments that are attached to the "Management Representation Letter".

### QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a loss to income or vice versa.
- Whether the difference concerns a segment or other portion of DCM's operating environment that has been identified as playing a significant role in DCM's operations or viability.
- Whether the difference affects DCM's compliance with regulatory requirements.
- Whether the difference has the effect of increasing management's compensation – for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation.
- Whether the difference involves concealment of an unlawful transaction.



## Summary of Audit Adjustments

The following are the proposed and corrected audit adjustments:

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>			
<b>To correct beginning balances in General Fund</b>			
13019	Sales Tax Receivable	117,893.54	
13999	Note Receivable- City		3,718.76
32000	Unrestricted Net Assets		114,174.78
<b>Total</b>		<b>117,893.54</b>	<b>117,893.54</b>
<b>Adjusting Journal Entries JE # 5</b>			
<b>To include expenses in correct accounting period and correct accounts payable balance</b>			
5102165	Electricity	319.15	
5102379	Project RGV Livestock Show Park	25,000.00	
20001	Accounts Payable		25,319.15
<b>Total</b>		<b>25,319.15</b>	<b>25,319.15</b>
<b>Adjusting Journal Entries JE # 6</b>			
<b>To record allowance estimate for the year</b>			
36020	Unavailable Rev/Gain From EDC	1,425.36	
36020.1	Unavailable Revenue	48,713.56	
36020.2	Unavailable Revenue - IRP	17,803.00	
59999	Bad Debt - General	1,425.36	
59999.1	Bad Debt - RBEG	8,823.78	
59999.1	Bad Debt - RBEG	6,283.90	
59999.1	Bad Debt - RBEG	5,279.20	
59999.1	Bad Debt - RBEG	19,326.74	
59999.1	Bad Debt - RBEG	8,999.94	
59999.2	Bad Debt - IRP	16,111.00	
59999.2	Bad Debt - IRP	1,692.00	
13296	Allowance - General		1,425.36
13296.1	Allowance - RBEG		48,713.56
13296.2	Allowance - IRP		17,803.00
59999	Bad Debt - General		1,425.36
59999.1	Bad Debt - RBEG		48,713.56
59999.2	Bad Debt - IRP		17,803.00
<b>Total</b>		<b>135,883.84</b>	<b>135,883.84</b>

## Summary of Audit Adjustments

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 7			
To record depreciation for the year			
6100GASB	Depreciation Expense	1,024.00	
14056	Accumulated Depreciation		1,024.00
<b>Total</b>		<b><u>1,024.00</u></b>	<b><u>1,024.00</u></b>

## Management Representation Letter



July 22, 2020

Carr, Riggs & Ingram, LLC  
Certified Public Accountants  
4100 North 23rd Street  
McAllen, Texas 78504

This representation letter is provided in connection with your audit(s) of the financial statements of Development Corporation of Mercedes (DCM), which comprise the respective financial position of the governmental activities and each major fund as of September 30, 2019 and the respective changes in financial position for the year then ended and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of July 22, 2020 the following representations made to you during your audit.

### Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 6, 2020, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the Development Corporation of Mercedes, a component unit of the City of Mercedes, Texas required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP, if any.

## Management Representation Letter

- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, if any, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP, if any.

### Information Provided

- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the DCM from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of board of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud, if any.
- 13) We have no knowledge of any fraud or suspected fraud that affects DCM and involves—
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting DCM's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements, if any.
- 17) We have disclosed to you the identity of DCM's related parties and all the related party relationships and transactions of which we are aware.
- 18) To our knowledge, redevelopment asset balance is properly valued and presented in the financial statements as of September 30, 2019.

## Management Representation Letter

- 19) Subsequent to year-end 2019, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. However, we do not believe that the spread of the COVID-19 has a financial impact on the results of the September 30, 2019 financial statements. The specific impact is not readily determinable as of the date of these financial statements, and the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management is monitoring the situation on a continuous basis in order to mitigate the potential impact in the financial statements of DCM.

### Government-specific

- 20) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 21) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 22) The DCM has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 23) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 25) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 26) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 27) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 28) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 29) In regard to the assistance of the preparation of the draft of the financial statements and related note disclosure services performed by you, we have —
- 1) Assumed all management responsibilities.
  - 2) Designated Melissa Ramirez, Executive Director, who has (have) suitable skill, knowledge, or experience to oversee the services.
  - 3) Evaluated the adequacy and results of the services performed.

## Management Representation Letter

- 4) Accepted responsibility for the results of the services.
- 30) The DCM has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 31) The DCM has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 32) The financial statements appropriately disclose all joint ventures and other related organizations.
- 33) The financial statements properly classify all funds and activities in accordance with GASBS No. 34 , as amended, and GASBS No. 84 .
- 34) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 35) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 36) Investments, and land and other real estate held by endowments are properly valued, if any.
- 37) Provisions for uncollectible receivables have been properly identified and recorded.
- 38) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 39) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 40) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 41) Deposits and investment securities are properly classified as to risk and are properly disclosed.
- 42) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
- 43) We have appropriately disclosed the DCM's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 44) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 45) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

## Management Representation Letter

46) With respect to the comparative individual fund statements:

- a) We acknowledge our responsibility for presenting the comparative individual fund statements in accordance with accounting principles generally accepted in the United States of America, and we believe the comparative individual fund statements, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the comparative individual fund statements have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- b) If the comparative individual fund statements are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

Signature: Melissa P. King  
Title: Executive Director

Signature: James M. King  
Title: President

## Management Representation Letter

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	Financial Statement Effect—Amount of Over- (Under-) statement of						Change in Fund Balance/Net Position
			Total Assets	Total Liabilities	Working Cap	Fund Balance/Net Position	Revenues	Expenses	
There recorded expenses in subsequent period understating current year expenses and AP	Factual (F)	Catch issues		2,620		2,620		2,620	2,620
Instead of a temporary memo, client affected current expenses	Factual (F)	Voided check was incorrectly recorded as a transaction affecting current year expenses						16,910	16,910
Total			0	(2,620)	0	2,620	0	(26,670)	26,670



## Internal Control Findings



Carr, Riggs & Ingram, LLC  
4100 N. 23rd St.  
McAllen, TX 78504

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(956) 686-6830 (fax)  
CRIcpa.com

To the Board of Directors and Management of  
Development Corporation of Mercedes  
Mercedes, TX

In planning and performing our audit of the financial statements of Development Corporation of Mercedes Corporation, Inc. as of and for the year ended September 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered Development Corporation of Mercedes Corporation Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCM's internal control. Accordingly, we do not express an opinion on the effectiveness of DCM'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 DCM's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of some deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency. Those deficiencies are described in the following pages.

This communication is intended solely for the information and use of management, Board of Directors, and others within the DCM, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Carr, Riggs & Ingram, LLC*

McAllen, Texas  
July 22, 2020

## Internal Control Findings

The following legend should be used in conjunction with reviewing the "Rating" of each of the identified internal control items:

<b>IP =</b> <b>Improvement Point</b>	<b>D =</b> <b>Control Deficiency</b>	<b>SD =</b> <b>Significant Deficiency</b>	<b>MW =</b> <b>Material Weakness</b>
---	---	--	---

CONTROL NUMBER	RATING	AREA	ITEM NOTED	SUGGESTION
2019-001	D	Travel approval	A travel approval form was not approved by one person above person traveling.	All travel form templates should include the signature approval of one person above person traveling.
2019-002	D	Bank reconciliations	Although bank reconciliations appear correctly prepared, no signature to evidence timely review from the executive director was noted.	Bank reconciliations prepared by external accountant should be reviewed on a monthly basis and should include a visual evidence of review such as name, initials, date and checkmark of executive director.
2019-003	D	Capital assets / Depreciation Expense	No capital assets listing is maintained by DCM's management to support the capital assets balance reported in the financial statements.	DCM should maintain a listing of capital assets with its depreciation to support the capital assets balance presented in the financial statement.
2019-004	D	Allowance for uncollectible notes receivable	When evaluating notes receivable supporting documentation, no methodology was noted to be in place to determine an allowance for uncollectible notes receivable.	Board and management of the DCM should develop a methodology to estimate allowance for uncollectible notes receivable and adjust the balance on a yearly basis.

## Internal Control Findings

CONTROL NUMBER	RATING	AREA	ITEM NOTED	SUGGESTION
2019-005	D	Expenditures	During testing of expenditures an issue was noted where expenditures of current year under audit were recorded as expenditures of subsequent year instead. Also, accounts payable beginning balance needed to be adjusted to reflect expenses in the proper fiscal year.	Expenditure and account payable transactions subsequent to year end should be reviewed to consider if the transaction or effect of a transaction has been recorded in the proper accounting period.
2019-006	D	Investments	Investment quarterly reports were not signed and not include specific information such as beginning market value, accrued interest, maturity date, as required by State of Texas's Public Funds Investment Act (Gov't Code title 10, Subtitle F, Chapter 2256, Subchapter A).	Although management provides monthly updates to the board about investments, management should develop a template to summarize on a quarterly basis the necessary information to comply with the requirements noted in the Act.
2019-007	D	Sales tax receivable	Sales tax receivable presented in financial audit report as of September 30, 2018 did not agree to the beginning balance of sales tax receivable recorded in the general ledger.	Beginning balances as per general ledger detail should be reconciled to the audit report of the prior year to verify all balance sheet account balances have rolled forward correctly from one period to another.
2019-008	IP	Notes receivable acceptance process	During testing, it was noted that several borrowers are currently defaulting on making timely payments. Also, some of these loans appear to be unsecured or include a collateral that cannot be claimed in case borrower becomes delinquent for an extended period of time.	Management and the board should consider possible methods to decrease the possibility of approving a loan to a borrower who has a high probability of defaulting and should verify that the collateral included as part of the borrower's loan agreement do not have a first lien prior to approving the loans.

## Internal Control Findings

CONTROL NUMBER	RATING	AREA	ITEM NOTED	SUGGESTION
2019-009	IP	QuickBooks backups	Although accounting services are outsourced, management is responsible of maintaining QuickBooks backups not only at the external CPA server location but also at a DCM location/DCM protected computer folder.	Even though a QuickBooks license is not required to be purchased to have in house access to the QuickBooks file of DCM, it is recommended that, at least annually, management requests a copy of the adjusted QuickBooks backup from the external CPA to ensure data integrity and recovery process can be done successfully in case a system or server failure at the CPA location occurs.

# **Development Corporation of Mercedes**

## **FINANCIAL STATEMENTS**

**September 30, 2019**



**CRI** CARR  
RIGGS &  
INGRAM

CPAs and Advisors

[CRIcpa.com](http://CRIcpa.com)

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**Development Corporation of Mercedes**

**Board of Directors**

**As of September 30, 2019**

**Board of Directors**

***Fred Gonzalez – President***

***Joe Flores Jr. – Vice President***

***Tony Garza – Treasurer***

***Jaime Gonzales – Secretary***

***Roel Villanueva – Member***

***Manuel Garza – Member***

***David Garza – Member***

**Executive Director**

**Melissa Ramirez**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Development Corporation of Mercedes  
Mercedes, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Development Corporation of Mercedes, a component unit of the City of Mercedes, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Development Corporation of Mercedes' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Development Corporation of Mercedes, a component unit of the City of Mercedes, Texas, as of September 30, 2019, 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.

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### ***Emphasis of Matter***

The previously issued financial statements have been restated to account for the correction of a misstatement related to the prior period. As further discussed in Note 3, the DCM's financial statements were restated and the effect of the adjustment was a decrease in beginning net position. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison schedules, and budgetary notes to required supplementary information, 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Development Corporation of Mercedes' basic financial statements. The introductory section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express an opinion and provide any assurance on them.

The other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The 2018 amounts which are included in the other supplementary information are presented for comparative purposes and were audited by other auditors whose report dated December 27, 2019 expressed an unmodified opinion on those statements in relation to the 2018 basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2020, on our consideration of Development Corporation of Mercedes' internal control over financial reporting and on our test 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 the Development Corporation of Mercedes' internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Development Corporation of Mercedes' internal control over financial reporting and compliance.

*Cam, Riggs & Ingram, L.L.C.*

McAllen, Texas  
July 22, 2020

## Development Corporation of Mercedes Management's Discussion and Analysis

As management of the Development Corporation of Mercedes (DCM), we offer readers of the DCM's financial statements this narrative overview of the financial activities for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with the financial statements which begin on page 17.

### FINANCIAL HIGHLIGHTS

- Total government-wide net position increased by \$643,264 as a result of this year's operations.
- Total assets and deferred outflows exceeded liabilities and deferred inflows at the close of the year by \$128,500.
- Total revenues in aggregate at the governmental funds increased from \$1,821,315 in prior year to \$1,950,106 in current year, an increase of \$128,791 from last year. Total expenses decreased from \$2,198,923 in prior year to \$1,629,062 in current year, a decrease of \$569,861 from last year.
- At the end of current fiscal year, DCM's governmental funds reported an ending fund balance of \$5,240,910, out of which \$4,519,286 is the balance in unassigned fund balance from the general fund (available for spending at the government's discretion).

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

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

Both of the government-wide financial statements present governmental activities of DCM that are principally supported by sales taxes. The government-wide financial statements can be found on pages 17-18 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. DCM, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of DCM are governmental.

## Development Corporation of Mercedes Management's Discussion and 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 spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

DCM maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, RBEG Fund, and IRP Loan Fund.

The basic governmental fund financial statements can be found on pages 17-22 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23 of this report.

**Other information.** A budgetary comparison for the General Fund and IRP Fund are provided as Required Supplementary Information (RSI) on page 51-52. Comparative balance sheet and statement of revenue, expenditures, and changes in fund balance for General Fund, RBEG Fund, and IRP Fund are provided as other supplementary information on page 59-64.

### Government-wide Financial Analysis

Net position serves over time as a useful indicator of a government's financial position. In the case of DCM, total assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$128,500 at the close of the fiscal year; a decrease of \$1,552,621 when compared to prior year. Total net position of \$128,500 is made up of net investment in capital assets, restricted, and unrestricted fund balances, which, at the end of the year, amounted to \$1,507, \$721,624, and \$(594,631), respectively.



## Development Corporation of Mercedes Management's Discussion and Analysis

The following table summarizes the DCM's net position at September 30, 2019:

<b>Development Corporation of Mercedes</b>		
<b>Net Position</b>		
<b>September 30</b>		
	Governmental Activities	
	2019	2018
Current and other assets	\$ 7,140,856	\$ 7,107,087
Capital assets	1,507	1,221
Total assets	<u>7,142,363</u>	<u>7,108,308</u>
Total deferred outflows of resources	<u>44,536</u>	<u>26,895</u>
Total assets and deferred outflows of resources	<u><u>7,186,899</u></u>	<u><u>7,135,203</u></u>
Long-term liabilities	\$ 6,995,256	\$ 5,374,399
Other liabilities	41,612	36,529
Total liabilities	<u>7,036,868</u>	<u>5,410,928</u>
Total deferred inflows of resources	<u>21,531</u>	<u>43,154</u>
Net position		
Net investment in capital assets	1,507	1,221
Restricted	721,624	343,664
Unrestricted (deficit)	<u>(594,631)</u>	<u>1,336,236</u>
Total net position	<u>128,500</u>	<u>1,681,121</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 7,186,899</u></u>	<u><u>\$ 7,135,203</u></u>

As noted above, DCM's overall net position decreased from the prior fiscal year. The reasons for the overall decrease are discussed in the following sections for governmental activities.

### Analysis of Changes in Net Position

**Governmental activities.** During the current fiscal year, net position for governmental activities decreased by \$514,762 after the recording of a settlement payable.

## Development Corporation of Mercedes Management's Discussion and Analysis

The following table summarizes the changes in the DCM's net position from its activities for the fiscal year ended September 30, 2019:

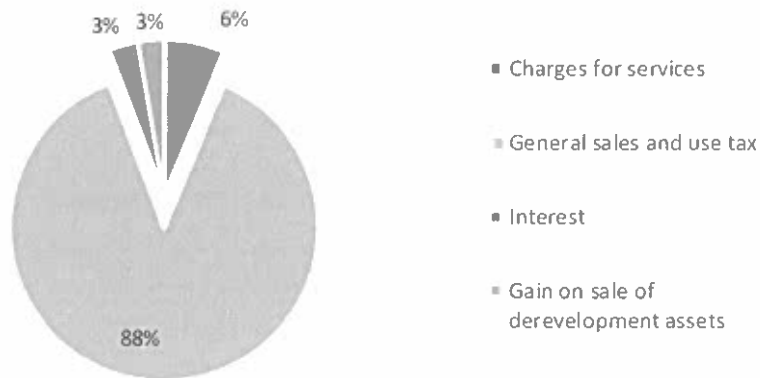
<b>Development Corporation of Mercedes</b>		
<b>Change in Net Position</b>		
<b>September 30, 2019</b>		
	Governmental Activities	
	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 114,181	\$ 137,488
General Revenues:		
General sales and use tax	1,604,938	1,520,508
Interest	55,988	55,100
Miscellaneous	-	45,720
Gain on sale of redevelopment assets	50,000	8,711
Total revenues	<u>1,825,107</u>	<u>1,767,527</u>
Expenses:		
Administrative services	483,579	270,053
Economic development	504,491	822,210
Interest on debt	193,775	217,124
Total expenses	<u>1,181,845</u>	<u>1,309,387</u>
Transfers	-	(97,831)
Changes in net position	<u>643,262</u>	<u>360,309</u>
Net position, beginning of year previously	1,681,121	1,128,527
Prior period adjustment (Note 7)	(2,195,883)	192,285
Net position, beginning of year restated	<u>(514,762)</u>	<u>1,320,812</u>
Net position, end of year	<u>\$ 128,500</u>	<u>\$ 1,681,121</u>

Total revenues generated from governmental activities for this year were \$1,825,107, reflecting a \$57,580 increase compared to last year. The reason for the increase is mainly due to a 6% increase in sales tax revenues.

Below is a pie chart illustrating the allocations of revenue as noted above.

## Development Corporation of Mercedes Management's Discussion and Analysis

### Revenues by Source - Governmental Activities



In the current fiscal year, steps were taken to reduce expenditures in order to improve net position, which contributed to a decrease in expenses of \$127,542 compared to prior year.

The economic development expenses and interest on long-term debt decreased by \$317,719 and \$23,349, respectively, mainly due to a note payable to the City which was liquidated in current year.

### FINANCIAL ANALYSIS OF THE DEVELOPMENT CORPORATION OF MERCEDES FUNDS

#### Financial Analysis of Government's Funds

As noted earlier, DCM uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of DCM governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing DCM financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, DCM governmental funds reported a combined ending fund balance of \$5,240,910, an increase of \$321,044 in comparison with prior year. Overall, unassigned and restricted fund balance of all governmental funds reflect a balance of \$4,519,286 and \$721,624, respectively. When comparing unassigned and restricted fund balances to prior year, unassigned fund balance decreased by \$56,916 and restricted fund balance increased by \$377,960, respectively. Change in unassigned fund balance from general fund is mainly related to increases in sales tax and overall decreases in expenditures and change in restricted fund balance is mainly related to restriction of cash reserve funds related to bond 2007. See section below.

## Development Corporation of Mercedes Management's Discussion and Analysis

### Revenues

The following table presents a summary of General Fund, RBEG Fund, and IRP Fund revenues for the fiscal years ended September 30, 2019 and 2018:

Revenues	2019 Balance	% of Total	2018 Balance	% of Total	Amount Increase / (Decrease)	% Increase (Decrease)
Sales tax	\$ 1,604,938	82%	\$ 1,520,508	83%	84,430	-1%
Interest	55,988	3%	55,100	3%	888	0%
Miscellaneous revenue	174,999	9%	108,219	6%	66,780	3%
Loan proceeds	114,181	6%	137,488	8%	(23,307)	-2%
Total revenues	<u>\$ 1,950,106</u>		<u>\$ 1,821,315</u>			

Increase in sales tax is attributed to higher sales in the year. Increase in miscellaneous revenue is due to additional charges made to a developer.

### Expenditures

The following table presents a summary of General fund, RBEG fund, and IRP fund expenditures for the fiscal years ended September 30, 2019 and 2018:

Expenditures	2019 Balance	% of Total	2018 Balance	% of Total	Amount Increase / (Decrease)	% Increase (Decrease)
Administrative services	\$ 307,135	19%	\$ 319,174	15%	(12,039)	4%
Economic development	504,777	31%	882,529	40%	(377,752)	-9%
Principal on debt	617,957	38%	790,682	36%	(172,725)	2%
Interest on debt	199,193	12%	206,538	9%	(7,345)	3%
Total expenditures	<u>\$ 1,629,062</u>		<u>\$ 2,198,923</u>			

The main decrease affecting expenditures for the year is in the category of economic development. DCM approved several loans to borrowers during FY 2018 and approved less loans to borrowers in the current year.

### BUDGETARY HIGHLIGHTS

DCM adopts an annual appropriated budget for its general and IRP funds. Budgetary comparison statements have been provided for the general and IRP funds to demonstrate compliance with these budgets. Detail budgetary comparisons are included as required supplementary information in pages 51-52.

## Development Corporation of Mercedes Management's Discussion and Analysis

**General fund.** When comparing original and amended budget, revenues were amended to increase the original budget from \$1,596,231 to \$1,688,988, primarily to increase the original budget for sales tax by \$94,872. Total expenditures were also amended to increase the original budget from \$1,849,517 to \$1,992,274, mainly to increase the original budget in principal and interest on debt by \$80,000 and \$55,063, respectively. At year-end, total actual revenues exceeded amended budget by \$135,819 mainly due to sales tax exceeding amended budget by \$83,035 and miscellaneous revenue exceeding budget by \$49,999. Total actual expenditures were below budget by \$406,003 because less economic incentives that anticipated were approved in the year. Although, in total, expenditures remained within budget, principal and interest on debt exceeded amended budget by \$60,497 and \$3,908, respectively.

**IRP fund.** Original budget was not amended during the year. When comparing budget to actual total revenues, actual total revenues exceeded budget by \$6,986. When comparing budget to expenditures, total actual expenditures exceeded budget by \$10,755, mainly because DCM did not set up a budget for the category of economic development services. The \$10,755 not budgeted was an expenditure to cover the increase of a loan for one of the borrowers plus loan fees.

**RBEG fund.** No budget is required to be set up for the RBEG fund.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets.** As of September 30, 2019, DCM's investment in capital assets, net of accumulated depreciation, for governmental activities amounted to \$1,507. This investment in capital assets includes furniture and equipment. Additional information on DCM's capital assets can be found in Note 4 – DETAIL NOTES ON ALL FUNDS – C. *Capital Assets*.

**Long term debt.** As of September 30, 2019, DCM's long term debt consisted of a bond and 4 note payables amounting to \$6,845,590. Only one of the notes payable originated during current year. Proceeds from long term debt issued in prior years has been used to purchase redevelopment assets in years prior to FY 2019. Additional information on DCM's long term debt can be found in Note 4 – DETAIL NOTES ON ALL FUNDS – D. *Long-Term Debt and Liabilities*.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

DCM's major revenue source is revenue from sales tax which are collected by the City of Mercedes. Thus, changes in the economy of the City of Mercedes have a direct impact on DCM's financial situation. Another major economic factor that affects DCM's financial situation is changes in unemployment rates.

- According to the Texas Labor Market Review, the unemployment rate for the McAllen-Edinburg-Mission MSA as of November 30, 2019 was 6.1 percent, which represents a slight increase compared to 5.8 percent from prior year. The state and national average unemployment rates are both reported at 3.3 percent.
- The 2020 General Fund and IRP Loan Fund budgets were adopted on a basis consistent with generally accepted accounting principles.

## **Development Corporation of Mercedes Management's Discussion and Analysis**

### **Requests for Information**

This financial report is designed to provide a general overview of Development Corporation of Mercedes' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Development Corporation of Mercedes: 320 S. Ohio Avenue, Mercedes, Texas, 78596, Melissa Ramirez, Executive Director.

**DEVELOPMENT CORPORATION OF MERCEDES**  
Basic Financial Statements

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**Development Corporation of Mercedes**  
**Statement of Net Position**

	Primary Government
September 30, 2019	Total
<b>Assets</b>	
Cash and cash equivalents	\$ 632,296
Sales taxes receivable, net	247,651
Due from City of Mercedes	292,968
Notes receivable, net	1,871,422
Restricted assets	
Cash and cash equivalents	723,113
Redevelopment assets	3,373,406
Capital assets	
Furniture and equipment, net	1,507
<b>Total assets</b>	<b>7,142,363</b>
<b>Deferred Outflows of Resources</b>	
Deferred outflows related to pension	41,252
Deferred outflows related to OPEB	3,284
<b>Total deferred outflows of resources</b>	<b>44,536</b>
<b>Liabilities</b>	
Accounts payable	25,319
Wages and salaries payable	3,205
Accrued interest payable	13,088
Non-current liabilities	
Due within one year	677,197
Due in more than one year	6,168,393
Net pension liability	139,538
Net OPEB liability	10,128
<b>Total liabilities</b>	<b>7,036,868</b>
<b>Deferred Inflows of Resources</b>	
Deferred inflows related to pensions	21,119
Deferred inflows related to OPEB	412
<b>Total deferred inflows of resources</b>	<b>21,531</b>
<b>Net Position</b>	
Investment in capital assets	1,507
Restricted	721,624
Unrestricted	(594,631)
<b>Total net position</b>	<b>128,500</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 7,186,899</b>

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

**Development Corporation of Mercedes**  
**Statement of Activities**

<i>For the year ended September 30, 2019</i>				Net (Expense) Revenue and
				Primary
				Governmental
				Activities
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Primary Government</b>				
Governmental activities				
Administrative services	\$ 483,579	\$ 114,181	\$ -	\$ (369,398)
Economic development services	504,491	-	-	(504,491)
Interest on debt	193,775	-	-	(193,775)
Total governmental activities	1,181,845	114,181	-	(1,067,664)
<b>General revenues</b>				
Taxes				
General sales and use tax				1,604,938
Investment earnings				55,988
Miscellaneous revenue				50,000
Total general revenues				1,710,926
Change in net position				643,262
Net position, beginning of year as previously reported				1,681,121
Prior period adjustment (see Note 3)				(2,195,883)
Net position, beginning of year as restated				(514,762)
Net position, end of year				\$ 128,500

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

**Development Corporation of Mercedes**  
**Balance Sheet – Governmental Funds**

<i>September 30, 2019</i>	General Fund	RBEG Grant Fund	IRP Loan Fund	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 632,296	\$ -	\$ -	\$ 632,296
Restricted cash and cash equivalents	295,452	247,618	180,043	723,113
Sales tax receivables, net	247,651	-	-	247,651
Due from City of Mercedes	292,968	-	-	292,968
Due from other funds	1,489	450	-	1,939
Notes receivable, net	136,640	525,941	396,339	1,058,920
Redevelopment assets	3,373,406	-	-	3,373,406
<b>Total assets</b>	<b>\$ 4,979,902</b>	<b>\$ 774,009</b>	<b>\$ 576,382</b>	<b>\$ 6,330,293</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 25,319	\$ -	\$ -	\$ 25,319
Wages and salaries payable	3,205	-	-	3,205
Due to other funds	-	-	1,939	1,939
<b>Total liabilities</b>	<b>28,524</b>	<b>-</b>	<b>1,939</b>	<b>30,463</b>
<b>Deferred inflows of resources</b>				
Unavailable revenue - notes receivable	136,640	525,941	396,339	1,058,920
<b>Total deferred inflows of resources</b>	<b>136,640</b>	<b>525,941</b>	<b>396,339</b>	<b>1,058,920</b>
<b>Fund balances</b>				
Restricted	295,452	248,068	178,104	721,624
Unassigned	4,519,286	-	-	4,519,286
<b>Total fund balances</b>	<b>4,814,738</b>	<b>248,068</b>	<b>178,104</b>	<b>5,240,910</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 4,979,902</b>	<b>\$ 774,009</b>	<b>\$ 576,382</b>	<b>\$ 6,330,293</b>

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

**Development Corporation of Mercedes**  
**Reconciliation of the Balance Sheet of Governmental**  
**Funds to the Statement of Net Position**

Total fund balances - governmental funds \$ 5,240,910

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 11,885	
Less: accumulated depreciation	(10,378)	1,507

Deferred outflows of resources related to pensions are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.	41,252
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Deferred inflows of resources related to pensions are not recognized in governmental funds; however, they are recorded in the statement of net position under full accrual accounting.	(21,119)
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Deferred outflows of resources related to OPEB are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.	3,284
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Deferred inflows of resources related to OPEB are not recognized in governmental funds; however, they are recorded in the statement of net position under full accrual accounting.	(412)
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Long term receivable due from the City of Mercedes is not available to pay current expenditures and is not reported in the funds.	812,502
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Long term receivable due from third parties and deferred in the fund statements	1,058,920
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Long-term liabilities, including total OPEB liability, net pension liability are not due and payable in the current period and, therefore, are not reported in the funds.

Net pension liability	(139,538)	
Other postemployment benefits	(10,128)	
Bonds and notes payable	(6,845,590)	
Accrued interest	(13,088)	(7,008,344)

Net position of governmental activities	\$ 128,500
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*The accompanying notes are an integral part of this financial statement.*

**Development Corporation of Mercedes**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – Governmental Funds**

<i>For the year ended September 30, 2019</i>	General Fund	RBEG Grant Fund	IRP Loan Fund	Total Governmental Funds
<b>Revenues</b>				
Sales tax	\$ 1,604,938	\$ -	\$ -	\$ 1,604,938
Interest and other	16,157	21,204	18,627	55,988
Miscellaneous revenue	174,999	-	-	174,999
Loan proceeds	28,713	46,503	38,965	114,181
<b>Total revenues</b>	<b>1,824,807</b>	<b>67,707</b>	<b>57,592</b>	<b>1,950,106</b>
<b>Expenditures</b>				
Current				
General government				
Administrative services	307,135	-	-	307,135
Economic development services	492,834	1,188	10,755	504,777
Debt service				
Principal on debt	593,394	-	24,563	617,957
Interest on debt	192,908	-	6,285	199,193
<b>Total expenditures</b>	<b>1,586,271</b>	<b>1,188</b>	<b>41,603</b>	<b>1,629,062</b>
Net change in fund balances	238,536	66,519	15,989	321,044
Fund balances, beginning of year	4,576,202	181,549	162,115	4,919,866
<b>Fund balances, end of year</b>	<b>\$ 4,814,738</b>	<b>\$ 248,068</b>	<b>\$ 178,104</b>	<b>\$ 5,240,910</b>

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

**Development Corporation of Mercedes**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds	\$ 321,044
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	286
Repayment of long-term debt principal is an expense in the governmental funds but the repayment reduces long term liabilities in the statement of net position.	617,957
Governmental funds do not accrue for interest expense on long-term debt. This is the net change in accrued interest payable in the year.	5,418
Repayment of notes receivable from the City of Mercedes are recorded as revenue in the governmental funds but reduces the receivable in the statement of net position.	(124,999)
Change in other long-term assets (notes receivable) are not available to pay current period expenses and, therefore, are unavailable in the funds.	(172,776)
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable and available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available:	
Change in deferred outflows of resources - pension	\$ 14,827
Change in deferred outflows of resources - OPEB	2,814
Change in deferred inflows of resources - pension	22,035
Change in deferred inflows of resources - OPEB	(412)
Change in net pension obligations	(39,252)
Change in net OPEB obligations	(3,680) (3,668)
<b>Change in net position of governmental activities</b>	<b>\$ 643,262</b>

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

## Development Corporation of Mercedes

### Notes to Financial Statements

#### **Note 1: DESCRIPTION OF THE ENTITY**

The Development Corporation of Mercedes (DCM), was incorporated on October 1, 1990 under the provisions of the Development Corporation Act of 1979. The Development Corporation of Mercedes is authorized by its charter to provide, assist, and enhance orderly and proper economic and industrial activities for the City of Mercedes. Its main focus is the areas of business retention and expansion, formation of new business, business attraction, facilitation or construction facilities, and the enhancement of community assets.

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Reporting Entity***

DCM is a component unit of the City of Mercedes, Texas. Therefore, the accompanying financial statements are not intended to present fairly the financial position, results of operation and cash flows for the City of Mercedes. These financial statements are included in the annual financial report of the City as a discretely presented component unit.

##### ***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of DCM. Governmental activities normally are supported by taxes and intergovernmental revenues.

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

##### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)***

##### ***Governmental Fund Financial Statements***

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the DCM considers restricted resources to be expensed first, then unrestricted resources. When an expenditure is incurred for from committed, assigned, or unassigned fund balances are available, the DCM considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Sales taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by DCM.

##### ***Government-Wide Financial Statements***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the DCM and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

##### ***Fund Financial Statements***

DCM uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.



## Development Corporation of Mercedes

### Notes to Financial Statements

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)***

##### ***Fund Financial Statements (Continued)***

Each fund is a separate accounting entry with a self-balancing set of accounts. All DCM funds are classified as governmental funds and are divided into separate “fund types.” These governmental funds are used to account for all or most of the government’s general activities.

DCM reports the following major governmental funds:

The *General fund* is DCM’s primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *Special revenue funds* are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes other than capital projects (*RBEG and IRP*).

During the course of operations, DCM has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

##### ***Budgetary Information***

##### ***Budgetary basis of accounting***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General fund and IRP Loan fund. Formal budgetary integration is employed as a management control device during the year. There is no requirement of the DCM to legally adopt a budget for the RBEG fund.

Unused appropriations of the above annually budgeted funds laps at the end of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. Revisions that alter total expenditures must be approved by DCM Board of Directors.

DCM management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year. DCM management submits to the DCM Board of Directors a proposed operating budget for the fiscal year commencing the following October 1.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***Budgetary Information (Continued)***

###### ***Budgetary basis of accounting (Continued)***

The budgets for General and IRP Loan funds include proposed expenditures and the means of financing them. The budget is presented to the City Commission of Mercedes for additional approval. Prior to October 1, the budget is adopted by the Board of Directors of DCM. Expenditures may not legally exceed budgeted appropriations at the DCM. During the year, supplementary appropriations are approved if necessary.

##### ***Compliance and Accountability***

###### ***Finance - Related Legal and Contractual Provision***

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.

The DCM did not complete its audit of the financial statements within 180 days after year-end as required by its bond covenants.

###### ***Excess of expenditures over appropriations***

At September 30, 2019, expenditures exceeded appropriations in the following functional categories:

###### **General Fund:**

Principal on debt	\$(60,497)
Interest on debt	\$(3,908)

The variance in debt service payments is due to payments of the notes payable due to the City of Mercedes during the year.

###### **IRP Fund:**

Economic development services	\$(10,755)
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The variance is due to a new loan issued during the year to an existing borrower. The new loan was issued through existing funds maintained in the DCM's IRP fund. The loan is processed through USDA and the amount of expenditure over budget is not considered to affect future funding.

###### ***Deficit Fund Balance or Fund Net Position of Individual Funds***

The DCM does not have funds with a deficit balance at year-end. However, the DCM has a negative unrestricted net position in the Governmental Activities of \$299,177. The result of this negative balance is due to a settlement liability related to a prior year performance agreement resolved in the current year.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity***

##### ***Cash and cash equivalents***

The DCM's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. It is DCM's policy, as well as a requirement in its Depository Agreement, for deposits plus accrued interest thereon to be 102% secured by collateral valued at fair value, less the amount of the federal depository insurance (FDIC).

##### ***Investments***

Investments for the DCM are reported at fair value (generally based on quoted market prices) except for the position in the TexPool public fund investment pool (Pool). The pool meets all of the specified criteria in Section 150: *Investments* to qualify to elect to measure their investments at amortized cost. Accordingly, the fair value of the DCM's position in the pool is equal to the value of the pooled shares.

##### ***Receivables***

Receivables consist of sales tax revenue and notes receivable. No allowance is recorded related to sales tax revenue since DCM expects to collect 100% from the state comptroller's office. For allowance related to notes receivable, DCM maintains an allowance for uncollectible receivable for estimated losses resulting from the failure of individuals to make required payments. DCM reviews the loans receivable on a periodic basis and makes allowances where there is doubt as to the collectibility of individual balances. In evaluating the collectibility of individual receivable balances and the possibility of uncollectibility, DCM considers many factors, including age of the balances, individual's payment history, current individual's credit worthiness, and current economic trends.

##### ***Redevelopment Assets***

Redevelopment assets are assets that, after purchase, are not used in operations, are not depreciated, and are expected to be disposed of by sale transaction. Redevelopment assets are reported at net realizable value. As of September 30, 2019, DCM's redevelopment assets includes lots of land and buildings totaling \$3,373,406.

##### ***Interfund Activities and Transactions***

Interfund transactions are reflected as services provided, reimbursements, or transfers. Services provided, deemed to be at or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when a fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental are funds are netted as part of the reconciliation to the government-wide presentation.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)*

###### **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

###### **Capital Assets**

Capital assets include property, plant, and equipment. Capital assets are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Any normal maintenance and repairs amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life are not capitalized. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Depreciation is provided in amounts sufficient to relate the cost of the capital assets to operations over their estimated service lives on the straight-line basis. The estimated useful lives by type of capital assets are as follows:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Furniture and Equipment	3 to 15 years

###### **Deferred Outflows/Inflows of Resources**

In addition to assets and liabilities, the statement of financial position will sometimes report a separate section for deferred outflows and inflows of resources. *Deferred outflows of resources* represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. *Deferred inflows of resources* represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. DCM reports deferred outflows and inflows of resources related to pensions and OPEB as further described in Note 5 and 6.

Because DCM is a component unit of the City of Mercedes, the greater portion of pension and OPEB is recorded and presented in the City of Mercedes' financial statements; however, the portion that pertains to DCM is presented in these financial statements. Note disclosures include the City portion but show the allocated portion for DCM.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)***

##### ***Long-Term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Bond premiums and discounts, as well as insurance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. In accordance with GASB Codification Section 130: *Interest Costs – Imputation*, bond issuance costs are expensed in the period incurred except for prepaid insurance costs.

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

##### ***Restricted Assets***

Certain proceeds of long-term debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable debt covenants.

##### ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

##### ***Other Post-Employment Benefits (OPEB) Liability***

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The District's proportionate share of OPEB amounts were further allocated to each participating employer based on the contributions paid by each employer. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)*

##### *Categories and Classification of Fund Equity*

*Fund balance policies* – Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. DCM itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, specifies the following classifications:

*Nonspendable fund balance* – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Restricted fund balance* – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the DCM's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the DMC that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

*Assigned fund balance* – Amounts in the assigned fund balance classification are intended to be used by the DMC for specific purposes but do not meet the criteria to be classified as committed. The governing council (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

*Unassigned fund balance* – Unassigned fund balance is the residual classification for the General Fund.

##### *Revenues and Expenditures/Expenses*

*Program revenues* – Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

##### ***Fair Value Measurements***

Investments are carried at fair value as defined in GASB Statement No. 72 "*Fair Value Measurement and Application*."

##### ***Recently Issued and Implemented Accounting Pronouncements***

DCM has implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The implementation of this statement did not result in any change in the DCM's financial statements. GASB Statement No. 88 requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to the financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. Additional information can be found in "Note 4 – DETAIL NOTES ON ALL FUNDS – D. *Long-Term Debt and Liabilities*."

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 will be effective for the fiscal years beginning after December 15, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***Recently Issued and Implemented Accounting Pronouncements (Continued)***

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

DCM evaluated the requirements of the above statements and the impact on reporting.

#### **Note 3: PRIOR PERIOD ADJUSTMENT**

On November 20, 2018, DCM and City of Mercedes approved Resolution No. 2018-13, which is a settlement and release agreement regarding prior year performance agreement. As of September 30, 2019, the settlement payable recorded as a prior period adjustment amounts to \$2,195,883. See "Note 4 – DETAIL NOTES ON ALL FUNDS – D. *Long-Term Debt and Liabilities*."



## Development Corporation of Mercedes

### Notes to Financial Statements

#### Note 4: DETAILED NOTES ON ALL FUNDS

##### A. Deposits and Investments

It is the policy of Development Corporation of Mercedes (DCM) as well as a requirement in its Depository Agreement for deposits plus accrued interest thereon to be 102% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation Insurance (FDIC). At year-end, the carrying amount of the DCM's deposits (cash and cash equivalents) was \$1,355,411 and the bank balance was \$1,359,482.

A breakdown of cash and investments follows:

	Amount
Cash	\$ 532,356
Restricted cash	318,784
TX Class	99,940
TX Class restricted	404,329
Total cash and cash equivalents, including restricted portion	\$ 1,355,409

Texas Cooperative Liquid Asset Securities Trust ("Texas CLASS"), is an investment pool (local government investment pool) for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. Texas CLASS reports its financial statements in accordance with Financial Statement Accounting Standards Board (FASB) and follows ASC 820 "Fair Value Measurement and Disclosure Requirements" in reporting its investments. For pricing and redeeming shares, Texas CLASS maintains a stable net asset value (NAV) of \$1 per share using the fair value method.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies; DCM reports its information to the City of Mercedes Council. Additionally, investment practices of DCM were in accordance with local policies. DCM's management believes that it complies with the requirements of the Texas Public Funds Investment Compliance Act (PFIA) and its adopted investment policies.

*Custodial credit risk* – Custodial credit risk for deposits is the risk in the event of the failure of a depository financial institution a government may not be able to recover deposits. Monies placed on deposit with financial institutions in the form of demand deposits, time deposits or certificates of deposit are defined as public deposits. The financial institutions in which DCM places its deposits are certified as "qualified public depositories." For an investment, this is the risk that, in the event of the failure of the counterparty, DCM will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

At September 30, 2019, DCM's deposits and investment balances were fully insured or collateralized as required by state statutes.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### Note 4: DETAILED NOTES ON ALL FUNDS (Continued)

##### *A. Deposits and Investments (Continued)*

*Interest rate risk* – Interest rate risk is the possibility that interest rates will rise and reduce the fair value of an investment. DCM investment policy states that no investment shall exceed two years in maturity. By limiting the exposure of its investments to less than two years, DCM reduces the risk of rising interest rates.

##### *B. Notes Receivable*

As an inducement to expand economic business operations in the City of Mercedes, Texas, DCM accepted notes from various businesses. These notes are for cash loans that carry various interest rates and terms. The interest rates vary by individual entity and are based on individual credit worthiness. A promissory note exists from the City due to a cooperative agreement to fund future debt of the DCM.

Notes receivable at September 30, 2019 consists of the following:

	Amount
Promissory note from the City of Mercedes - VTX loan	\$ 812,502
Loan receivable - Michael Salinas	60,747
Loan receivable - DeLaGarza Bakery	138,744
Loan receivable - MD Int'l (Orb-Galvan)	135,215
Loan receivable - MD International	48,000
Loan receivable - MD Int'l (Galvan)	138,897
Loan receivable - First Nat'b (Gomez)	19,141
Loan receivable - First Nat'b B (Gomez)	30,334
Loan receivable - R. Guerra	49,826
Loan receivable - West Harlingen Partnership	150,000
Loan receivable - M&P Enterprise (RBEG)	22,780
Loan receivable - M&P Enterprise (IRP)	50,928
Loan receivable - Rubiano	150,000
Loan receivable - Jose Garcia	99,118
Loan receivable - Jose Garcia (IRP)	123,117
Loan receivable - Jose Garcia (RBEG)	88,000
Loan receivable - Petra Reyna	54,903
Loan receivable - 956 Sports	32,222
Loan receivable - Charlie Bertholf	5,608
Loan receivable - Mid Valley Dental	61,238
Loan receivable - Longoria	9,387
Loan receivable - Jaime Gonzalez	42,010
Loan receivable - Nora Martinez	6,686
Loan receivable - Castaneda Mario &M	95,181

**Development Corporation of Mercedes**  
**Notes to Financial Statements**

**Note 4: DETAILED NOTES ON ALL FUNDS (Continued)**

**B. Notes Receivable (Continued)**

	Amount
Loan receivable - Elias Gonzalez	\$ 2,851
Loan receivable - Leticia Galvan	6,599
Loan receivable - Reybotics, LLC	150,000
Loan receivable - Werbiski Ashley	23,969
Loan receivable - Irma Cadena	3,384
Loan receivable - Beatrice Edwards	1,265
Loan receivable - American Legion	351
Loan receivable - Raquel Moreno	12,637
Loan receivable - The Grind	58,177
Total loans receivable	\$ 2,683,817
Less: allowance for uncollectible	812,395
Total notes receivable, net	\$ 1,871,422

**C. Capital Assets**

The following is a summary of changes in capital assets during the year ended September 30, 2019:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets, being depreciated				
Furniture and equipment	\$ 10,575	\$ 1,310	\$ -	\$ 11,885
Total capital assets, being depreciated	10,575	1,310	-	11,885
Less accumulated depreciation for				
Furniture and equipment	(9,354)	(1,024)	-	(10,378)
Total accumulated depreciation	(9,354)	(1,024)	-	(10,378)
Total capital assets being depreciated, net	1,221	286	-	1,507
Governmental activities capital assets, net	\$ 1,221	\$ 286	\$ -	\$ 1,507

Depreciation expense of \$1,024 was charged to general government functions.

**D. Long-Term Debt and Liabilities**

*Bonds payable*

On August 15, 2009, DCM issued sales tax revenue bond series 2007, due in annual installments not exceeding \$265,000, beginning August 15, 2009 through August 15, 2027. Interest rate is fixed at 4.550%. The note is secured by sales tax revenue. As of September 30, 2019, the principal outstanding on the bond was \$1,840,000.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### Note 4: DETAILED NOTES ON ALL FUNDS (Continued)

##### *Notes payable*

On January 5, 2015, DCM borrowed \$1,075,000 payable to the Office of the Governor Economic Development and Tourism Division. The terms of the note include principal and interest payments of \$10,530 which commenced on March 1, 2015 and continue until February 1, 2025 when the entire balance, including principal and interest, will be due and payable. Interest rate is variable between 3.25% and 5%. The note is secured by a lien on and security interest in sales and use tax. As of September 30, 2019, the principal outstanding on the note was \$640,136.

On September 24, 2009, DCM borrowed \$750,000 payable to the USDA. The terms of the note include principal and interest payments of \$30,848 commencing October 1, 2015 and continue until February 16, 2041 when the entire balance, including principal and interest, will be due and payable. Interest rate is fixed at 1%. The note is secured by funds placed in the IRP revolving fund and various collateral obtained as a result of lending activity. As of September 30, 2019, the principal outstanding on the note was \$603,981.

On February 17, 2016, DCM borrowed \$2,000,000 payable to Valley Telephone Cooperative. The terms of the note include principal payments of \$20,833 which commenced on February 17, 2016 and continuing until March 1, 2026. The note is secured by sales tax revenue and is used to purchase redevelopment assets to further economic objectives. As of September 30, 2019, the principal outstanding on the note was \$1,625,000.

As of September 30, 2019, DCM's total governmental activities notes payable from direct borrowing was \$1,244,117.

##### *Settlement payable*

On November 20, 2018, the City of Mercedes approved Resolution No. 2018-13, which is a resolution established for the DCM and the City to pay each a portion of a settlement resulting from a prior year agreement with a developer. DCM portion of the settlement was \$2,195,882. As of September 30, 2019, the principal outstanding on the note was \$2,136,473.

Long-term liability activity for the year ended September 30, 2019, was as follows for governmental activities:

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Notes payable	\$ 3,242,665	\$ -	\$ 373,548	\$ 2,869,117	\$ 382,197
Bonds Payable	2,025,000	-	185,000	1,840,000	195,000
Settlement payable	2,195,882	-	59,409	2,136,473	100,000
Total notes and bonds payable	<u>\$ 7,463,547</u>	<u>\$ -</u>	<u>\$ 617,957</u>	<u>\$ 6,845,590</u>	<u>\$ 677,197</u>

**Development Corporation of Mercedes**  
**Notes to Financial Statements**

**Note 4: DETAILED NOTES ON ALL FUNDS (Continued)**

***D. Long-Term Debt and Liabilities (Continued)***

The annual requirements to retire the bonds payable are as follows:

<i>Year ending September 30,</i>	Governmental Activities		
	Bond Payable		
	Principal	Interest	Total Principal
2020	\$ 195,000	\$ 83,720	\$ 278,720
2021	205,000	74,848	279,848
2022	215,000	65,520	280,520
2023	225,000	55,738	280,738
2024	235,000	45,500	280,500
2025–2029	765,000	70,526	835,526
Total	1,840,000	395,852	2,235,852
Current portion	(195,000)	(83,720)	(278,720)
Payable after one year	\$ 1,645,000	\$ 312,132	\$ 1,957,132

The annual requirements to retire the notes payable are as follows:

<i>Year ending September 30,</i>	Governmental Activities		
	Notes Payable		
	Principal	Interest	Total Principal
2020	\$ 382,197	\$ 34,268	\$ 416,465
2021	385,237	30,181	415,418
2022	391,704	24,208	415,912
2023	398,523	17,946	416,469
2024	396,857	11,376	408,233
2025–2029	577,555	21,623	599,178
2030-2034	138,815	13,425	152,240
2035-2039	138,815	5,925	144,740
2040-2044	59,414	285	59,699
Total	2,869,117	159,237	3,028,354
Current portion	(382,197)	(34,268)	(416,465)
Payable after one year	\$ 2,486,920	\$ 124,969	\$ 2,611,889

## Development Corporation of Mercedes

### Notes to Financial Statements

#### Note 5: PENSION PLAN

##### *Description of Plans*

DCM participates as part of the City of Mercedes, Texas nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas.

TMRS places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with advice and consent of the senate, appoints the Board, TMRS is not fiscally dependent of the State of Texas. TMRS's defined benefit pension plan is tax-qualified plan under section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefits are calculated as if the sum of the employee's contributions, with interest, and the city-financing monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefits as Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

##### *Employees covered by benefit terms*

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

<i>Plan Membership - December 31,</i>	<i>2018</i>
Inactive plan members or beneficiaries currently receiving benefits	56
Inactive plan members entitled to, but not yet receiving benefits	78
Active plan members	106
<b>Total plan membership</b>	<b>240</b>

These figures are City-wide as the Plan has not provided this information specific to the DCM.

##### *Contributions*

The contribution rates for employees in TMRS is 7% of employee gross earnings, and the City matching percentage is 200%, both as adopted by the government body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### Note 5: PENSION PLAN (Continued)

##### *Contributions (Continued)*

Employees for the DCM were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the DCM were 18.79% and 18.30% in calendar year 2018 and 2019, respectively. The DCM contributions to TMRS for the year ended September 30, 2019 were \$21,572, and were equal to the retirement contributions.

##### *Net Pension Liability*

The City's Net Pension Liability was measured as of December 31, 2018, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

##### *Actuarial assumptions*

The total pension liability at the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

##### *Schedule of actuarial assumptions*

Valuation date	December 31, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	10 years smoothed market; 15% soft corridor
Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality assumption	RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of the actuarial experience studies. The experience study in TMRS was for the period December 30, 2010 through December 30, 2014. Assumptions are reviewed annually. No additional changes were made of the 2018 valuation.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### Note 5: PENSION PLAN (Continued)

##### *Actuarial assumptions (Continued)*

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimated ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return (Arithmetic)
Domestic equity	17.5%	4.30%
International equity	17.5%	6.10%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	3.39%
Real return	10.0%	3.78%
Real estate	10.0%	4.44%
Absolute return	10.0%	3.56%
Private equity	5.0%	7.75%

##### ***Discount Rate***

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



**Development Corporation of Mercedes**  
**Notes to Financial Statements**

**Note 5: PENSION PLAN (Continued)**

***Schedule of Changes in Net Pension Liability***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 21,480,987	\$ 17,567,690	\$ 3,913,297
Changes for the year			
Service cost	723,965	-	723,965
Interest	1,447,569	-	1,447,569
Differences between expected and actual experience	(398,692)	-	(398,692)
Changes of assumptions	-	-	-
Changes of benefit terms	-	-	-
Contributions - employer	-	766,842	(766,842)
Contributions - employee	-	288,596	(288,596)
Net investment income	-	(526,655)	526,655
Benefit payments, including refunds of employee contributions	(794,999)	(794,999)	-
Administrative expense	-	(10,170)	10,170
Other charges	-	(531)	531
Net changes	977,843	(276,917)	1,254,760
Balances at December 31, 2018	\$ 22,458,830	\$ 17,290,773	\$ 5,168,057

Net pension liability allocation:

City of Mercedes portion	97.3%	\$ 5,028,519
Development Corporation of Mercedes portion	2.7%	139,538

Net pension liability amounts were allocated between the City and DCM based on the DCM's proportionate share of covered payroll. DCM Net Pension Liability at September 30, 2019 is \$139,538.

***Sensitivity of the Net Pension Liability to Changes in the Discounted Rate***

The following represents the net pension liability of the DCM, calculated using the discount rate of 6.75%, as well as what the DCM's net pension liability would have been if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
City's net pension liability, including DCM portion	\$ 8,380,139	\$ 5,168,057	\$ 2,540,101
DCM's portion	226,264	139,538	68,583

**Development Corporation of Mercedes**  
**Notes to Financial Statements**

**Note 5: PENSION PLAN (Continued)**

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended September 30, 2019, the DCM recognized pension expense in the amount of \$13,585. At September 30, 2019, the DCM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ -	\$ 782,191
Changes of assumptions	44,392	-
Net difference between projected and actual earnings	895,654	-
Contributions made subsequent to the measurement date	587,801	-
<b>Total</b>	<b>\$ 1,527,847</b>	<b>\$ 782,191</b>

Deferred outflows of resources:

City of Mercedes portion	97.3%	\$ 1,486,595
Development Corporation of Mercedes portion	2.7%	41,252

Deferred inflows of resources:

City of Mercedes portion	97.3%	\$ 761,072
Development Corporation of Mercedes portion	2.7%	21,119

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$15,871 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2018 (i.e., recognized in the DCM's financial statements September 30, 2019).

The remaining deferred outflows and inflows of resources related to the pension will be amortized and recognized in pension expense as follows:

<i>Year ending September 30,</i>	Amount
2020	\$ (6,070)
2021	(125,261)
2022	(28,976)
2023	318,162
2024	-
Thereafter	-
<b>Total</b>	<b>\$ 157,855</b>

**Development Corporation of Mercedes**  
**Notes to Financial Statements**

**Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

***Plan Description***

The DCM participates, as part of the City, in the single-employer benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com)

The DCM offers supplemental death benefits to both active and retired employees.

***Employees Covered by Benefit Terms***

The most recent measurement date for SDBF was December 31, 2018. As of the most recent measurement date, the following employees were covered by the benefit terms:

<i>Plan Membership - December 31,</i>	<b>2018</b>
Inactive plan members or beneficiaries currently receiving benefits	38
Inactive plan members entitled to, but not yet receiving benefits	9
Active plan members	106
<b>Total plan membership</b>	<b>153</b>

These figures are City-wide, as the Plan has not provided this information specific to the DCM.

***Actuarial Assumptions and Other Inputs***

The total OPEB liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

**Development Corporation of Mercedes**  
**Notes to Financial Statements**

**Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

*Schedule of actuarial assumptions*

Valuation date	December 31, 2018
Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate *	3.71%
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality assumption	Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

\*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

**Total OPEB Liability**

	Increase (Decrease)
	Total OPEB Liability
Balances at December 31, 2017	\$ 251,858
Service cost	14,018
Interest	8,541
Differences between expected and actual experience	120,401
Changes of assumptions	(18,067)
Benefit payments, including refunds of employee contributions	(1,649)
Net changes	123,244
Balances at December 31, 2018	375,102

Changes in the Total OPEB liability allocation:

City of Mercedes portion	97.3%	\$ 364,974
Development Corporation of Mercedes portion	2.7%	10,128

**Development Corporation of Mercedes**  
**Notes to Financial Statements**

**Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

***Total OPEB Liability (Continued)***

Net OPEB liability amounts were allocated between the City and the DCM based on the DCM's proportionate share of covered payroll. The DCM's total OPEB liability at September 30, 2019 was \$10,128. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018.

***Sensitivity of the total OPEB liability to Changes in the Discount Rate***

	1% Decrease (2.71%)	Current Discount Rate (3.71%)	1% Increase (4.71%)
City's net OPEB liability, including DCM portion	\$ 423,855	\$ 375,102	\$ 336,760
DCM's portion	11,444	10,128	9,093

***OPEB Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the year ended September 30, 2019, the DCM recognized OPEB expense of \$854. At September 30, 2019, the DCM reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 101,792	\$ -
Changes of assumptions	13,983	15,275
Net difference between projected and actual earnings	-	-
Contributions made subsequent to the measurement date	5,839	-
<b>Total</b>	<b>\$ 121,614</b>	<b>\$ 15,275</b>

Deferred outflows of resources:

City of Mercedes portion	97.3%	\$ 118,330
Development Corporation of Mercedes portion	2.7%	3,284

Deferred inflows of resources:

City of Mercedes portion	97.3%	\$ 14,863
Development Corporation of Mercedes portion	2.7%	412

**Development Corporation of Mercedes**  
**Notes to Financial Statements**

**Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

***OPEB Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)***

Deferred outflows of resources related to OPEB resulting from contributions subsequent to measurement date of \$158 will be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2018 (i.e., recognized in the DCM's financial statements September 30, 2019). The remaining outflows and inflows of resources related to pensions will be amortized and recognized in OPEB expense as follows:

<i>Year ending September 30,</i>	<i>Amount</i>
2020	\$ 18,945
2021	18,945
2022	18,945
2023	18,945
2024	17,288
Thereafter	7,432
<b>Total</b>	<b>\$ 100,500</b>

**Note 7: RISK MANAGEMENT**

DCM is exposed to various risks of loss due to torts, theft of, damage to and destruction of assets; errors or omissions; injuries to employees; and natural catastrophes. During fiscal year 2019, DCM purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage from prior years. Furthermore, DCM is not aware of any pending claims for which liability would exceed the limits of commercial insurance coverage.

**Note 8: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the year, DCM reported the following unavailable revenues in the fund financial statements:

	General Fund	RBEG Fund	IRP Fund	Total
Unavailable revenue - Notes receivable	\$ 136,640	\$ 525,941	\$ 396,339	\$ 1,058,920

**Development Corporation of Mercedes**  
**Notes to Financial Statements**

**Note 9: ECONOMIC INCENTIVE COMMITMENTS**

DCM extended economic incentives to the following entities:

Entity	Commitment	Paid in Prior Year	Paid in Current Year	Balance Due
Knapp Medical Center	\$ 750,000	\$ 300,000	\$ 150,000	\$ 300,000
OA Mercedes Health Realty	590,000	236,000	118,000	236,000
Rio Grande Livestock Show	300,000	100,000	25,000	175,000
Raybecc Ohio Street LLC	200,000	100,000	-	100,000
Orchard Grove Apartments	450,000	-	100,000	350,000
La Herencia	200,000	-	-	200,000
Texas Rio Grande Legal Aid (TRLA)	280,000	230,000	25,000	25,000
Total Commitments	<u>\$ 2,770,000</u>	<u>\$ 966,000</u>	<u>\$ 418,000</u>	<u>\$ 1,386,000</u>

Subsequent year balances of \$1,386,000 are contingent on the business entities maintaining agreed upon conditions relating to the incentives. The amount is not recognized as a liability in the financial statements.

**Note 10: OPERATING LEASE COMMITMENTS**

The DCM leases a copier and office building under operating leases. Total costs for such leases as of September 30, 2019 were \$20,426. The future minimum lease payments for these leases are as follows:

<i>Year ending September 30,</i>	<i>Amount</i>
2020	\$ 18,082
2021	18,082
Total	<u>\$ 36,164</u>

**Note 11: RELATED PARTY TRANSACTIONS**

The City's economic development activities via City Council resolution has delegated all economic development activities to DCM.

At September 30, 2019, the City of Mercedes owes \$292,968 to DCM, which is recorded as a due from in the Statement of Net Position.

**Note 12: CONTINGENCIES**

In the normal course of business, the DCM may be involved in litigation claims against DCM. Generally, these litigation claims are incidental to its operations.

## Development Corporation of Mercedes

### Notes to Financial Statements

#### **Note 13: SUBSEQUENT EVENTS**

Management evaluated all events or transactions that occurred after September 30, 2019 through July 22, 2020, the date the current year's financial statements were available to be issued. The following events occurred:

In March 2020, the World Health Organization made the assessment that the outbreak of a novel Coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Organization. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

Subsequent to September 30, 2019, the DCM filed seven lawsuits to attempt to collect outstanding of note receivable loan balances from borrowers who are currently late on payments.



**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Development Corporation of Mercedes**  
**Budgetary Comparison Schedule – General Fund**

<i>For the year ended September 30, 2019</i>	Original Budget	Amended Budget	Actual Amounts (GAAP basis)	Total Governmental Funds
<b>Revenues</b>				
General sales and use tax	\$ 1,427,031	\$ 1,521,903	\$ 1,604,938	\$ 83,035
Interest and other	14,200	12,085	16,157	4,072
Miscellaneous revenue	125,000	125,000	174,999	49,999
Loan proceeds	30,000	30,000	28,713	(1,287)
<b>Total revenues</b>	<b>1,596,231</b>	<b>1,688,988</b>	<b>1,824,807</b>	<b>135,819</b>
<b>Expenditures</b>				
Current				
General government				
Administrative services	375,286	378,232	307,135	71,097
Economic development services	884,397	889,145	492,834	396,311
Capital outlay	3,000	3,000	-	3,000
Debt service				
Principal on debt	452,897	532,897	593,394	(60,497)
Interest on debt	133,937	189,000	192,908	(3,908)
<b>Total expenditures</b>	<b>1,849,517</b>	<b>1,992,274</b>	<b>1,586,271</b>	<b>406,003</b>
Net change in fund balances	(253,286)	(303,286)	238,536	(270,184)
Fund balances, beginning of year	4,576,202	4,576,202	4,576,202	-
<b>Fund balances, end of year</b>	<b>\$ 4,322,916</b>	<b>\$ 4,272,916</b>	<b>\$ 4,814,738</b>	<b>\$ (270,184)</b>

Note that this schedule is prepared on a budgetary basis, but it is not different from Generally Accepted Accounting Principles (GAAP) in presentation.

**Development Corporation of Mercedes**  
**Budgetary Comparison Schedule – IRP Fund**

<i>For the year ended September 30, 2019</i>	Original Budget	Amended Budget	Actual Amounts (GAAP basis)	Total Governmental Funds
<b>Revenues</b>				
Interest and other	\$ 50,606	\$ 50,606	\$ 18,627	\$ (31,979)
Loan proceeds	-	-	38,965	38,965
Total revenues	50,606	50,606	57,592	6,986
<b>Expenditures</b>				
Current				
General government				
Economic development services	-	-	10,755	10,755
Debt service				
Principal on debt	30,848	30,848	24,563	(6,285)
Interest on debt	-	-	6,285	6,285
Total expenditures	30,848	30,848	41,603	10,755
Excess (deficiency) of revenues over (under) expenditures	19,758	19,758	15,989	(3,769)
Net change in fund balances	-	19,758	15,989	(3,769)
Fund balances, beginning of year	162,115	162,115	162,115	-
Fund balances, end of year	\$ 162,115	\$ 181,873	\$ 178,104	\$ (3,769)

Note that this schedule is prepared on a budgetary basis, but it is not different from Generally Accepted Accounting Principles (GAAP) in presentation.

## **Development Corporation of Mercedes Budgetary Notes to Required Supplementary Information**

### **Note 1: BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Formal budgetary integration is employed as a management control device during the year for the DCM general fund. The DCM is legally required to adopt a budget for the IRP Lon fund in order to comply with USDA funding. Unused appropriations of the annually budgeted funds laps at the end of each year.

DCM adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- a) Prior to the first day of October of each year, the executive director prepares a proposed budget for the next succeeding fiscal year and submits it to the City of Mercedes Commission and DCM Board of Directors for approval. The recommended budget includes proposed expenditures and the sources of receipts to finance them.
- b) Complete copies of the proposed budget are made available for public inspection. Public hearings are conducted to obtain taxpayers' comments.
- c) The budget is enacted through passage of a City ordinance.
- d) The executive director is authorized to transfer budgeted amounts between line items within a department; however, any revisions that alter the total expenditures of any department must be approved by DCM Board of Directors. Expenditures may not exceed legal appropriations at the DCM. All appropriations lapse at year end.
- e) The budgetary comparison schedule shown in the accompanying required supplementary information presents comparisons of the legally adopted budget, as amended, with actual results. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

**Development Corporation of Mercedes**  
**Schedule of Changes in Net Position Liability and**  
**Related Ratios – For Texas Municipal Retirement System**

Plan Year Ended December 31,	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service cost	\$ 723,965	\$ 712,113	\$ 740,529	\$ 753,182	\$ 664,545
Interest (on the total pension liability)	1,447,569	1,398,746	1,332,821	1,296,517	1,231,913
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(398,692)	(478,060)	(236,560)	(421,205)	(493,288)
Change of assumptions	-	-	-	193,616	-
Benefit payments, including refunds of employee contributions	(794,999)	(1,035,847)	(655,971)	(527,954)	(521,175)
Net Change in Total Pension Liability	977,843	596,952	1,180,819	1,294,156	881,995
Total Pension Liability - Beginning	21,480,987	20,884,035	19,703,216	18,409,060	17,527,065
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 22,458,830</b>	<b>\$ 21,480,987</b>	<b>\$ 20,884,035</b>	<b>\$ 19,703,216</b>	<b>\$ 18,409,060</b>
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	\$ 766,842	\$ 783,036	\$ 789,320	\$ 847,433	\$ 794,726
Contributions - employee	288,596	286,977	289,431	301,273	292,487
Net investment income	(526,655)	2,135,982	950,023	19,805	696,081
Benefit payments, including refunds of employee contributions	(794,999)	(1,035,847)	(655,971)	(527,954)	(521,175)
Administrative expense	(10,170)	(11,068)	(10,722)	(12,061)	(7,266)
Other	(531)	(561)	(578)	(596)	(597)
Net Change in Plan Fiduciary Net Position	(276,917)	2,158,519	1,361,503	627,900	1,254,256
Plan Fiduciary Net Position - Beginning	17,567,690	15,409,171	14,047,668	13,419,769	12,165,513
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 17,290,773</b>	<b>\$ 17,567,690</b>	<b>\$ 15,409,171</b>	<b>\$ 14,047,669</b>	<b>\$ 13,419,769</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 5,168,057</b>	<b>\$ 3,913,297</b>	<b>\$ 5,474,864</b>	<b>\$ 5,655,547</b>	<b>\$ 4,989,291</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>76.99%</b>	<b>81.78%</b>	<b>73.78%</b>	<b>71.30%</b>	<b>72.90%</b>
Covered Payroll	\$ 4,122,806	\$ 4,099,672	\$ 4,134,721	\$ 4,303,896	\$ 4,178,391
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>125.35%</b>	<b>95.45%</b>	<b>132.41%</b>	<b>131.41%</b>	<b>119.41%</b>

Note: GASB 68 requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is compiled, the City of Mercedes and DCM will present information for those years for which information is available. This exhibit includes DCM's pension related information.

**Development Corporation of Mercedes**  
**Schedule of Contributions**  
**For Texas Municipal Retirement System – Pension Plan**

Fiscal Year Ended September 30,	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 809,721	\$ 783,036	\$ 795,685	\$ 810,771	\$ 819,275
Contributions in relation to actuarially determined contribution	(809,721)	(783,036)	(795,685)	(810,771)	(819,275)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 4,437,051	\$ 4,099,672	\$ 4,122,412	\$ 4,167,060	\$ 4,159,937
Contributions as a percentage of covered payroll	18.25%	19.10%	19.30%	19.46%	19.69%

**Notes to Schedule of Contributions**

**Valuation Date:** December 31, 2018

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**Development Corporation of Mercedes**  
**Schedule of Changes in Total OPEB Liability and**  
**Related Ratios For Texas Municipal Retirement System**

Plan Year Ended December 31,	2018	2017
<b>Total OPEB Liability</b>		
Service cost	\$ 14,018	\$ 11,889
Interest (on the total OPEB liability)	8,541	8,257
Changes of benefit terms	-	-
Difference between expected and actual experience	120,401	-
Change of assumptions	(18,067)	20,239
Benefit payments, including refunds of employee contributions	(1,649)	(2,050)
<b>Net Change in Total OPEB Liability</b>	<b>123,244</b>	<b>38,335</b>
<b>Total OPEB Liability - Beginning</b>	<b>251,858</b>	<b>213,523</b>
<b>Total OPEB Liability - Ending (a)</b>	<b>\$ 375,102</b>	<b>\$ 251,858</b>
 Covered employee payroll	 \$ 4,122,806	 \$ 4,099,672
 Total OPEB Liability as a percentage of covered employee payroll	 9.10%	 6.14%

**Notes to Schedule of Contributions**

**Valuation Date:** December 31, 2018

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	17 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	3.71%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
<b>Other Information:</b>	There were no benefit changes during the year.



## **OTHER SUPPLEMENTARY INFORMATION**

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**Development Corporation of Mercedes**  
**Comparative Balance Sheet – General Fund**

<i>September 30</i>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 632,296	\$ 680,200
Sales tax receivables, net	247,651	247,651
Due from City of Mercedes	292,968	292,968
Due from other funds	1,489	-
Notes receivable, net	136,640	166,779
Redevelopment assets	3,373,406	3,373,406
<b>Total assets</b>	<b>\$ 4,979,902</b>	<b>\$ 5,056,456</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 25,319	\$ 17,000
Accrued payroll and related liabilities	3,205	1,023
<b>Total liabilities</b>	<b>28,524</b>	<b>18,023</b>
<b>Deferred inflows of resources</b>		
Unavailable revenue - notes receivable	136,640	166,779
<b>Total deferred inflows of resources</b>	<b>136,640</b>	<b>166,779</b>
<b>Fund balances</b>		
Restricted for	295,452	295,452.00
Unassigned	4,519,286	4,576,202
<b>Total fund balances</b>	<b>4,814,738</b>	<b>4,871,654</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 4,979,902</b>	<b>\$ 5,056,456</b>

**Development Corporation of Mercedes**  
**Comparative Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – General Fund**

<i>For the year ended September 30</i>	<b>2019</b>	<b>2018</b>
<b>Revenues</b>		
General sales and use tax	\$ 1,604,938	\$ 1,520,508
Interest and other	16,157	15,630
Miscellaneous revenue	174,999	80,466
Loan proceeds	28,713	41,651
Total revenues	<b>1,824,807</b>	<b>1,658,255</b>
<b>Expenditures</b>		
Current		
General government		
Administrative services	307,135	319,174
Economic development services	492,834	681,244
Debt service		
Principal on debt	593,394	766,363
Interest on debt	192,908	200,009
Total expenditures	<b>1,586,271</b>	<b>1,966,790</b>
Excess (deficiency) of revenues over (under) expenditures	238,536	(308,535)
<b>Other Financing Sources (Uses)</b>		
Transfers out	-	(97,831)
Gain (loss) on sale of redevelopment assets	-	8,711
Total other financing sources (uses)	-	(89,120)
Net change in fund balances	<b>238,536</b>	<b>(397,655)</b>
Fund balances, beginning of year	<b>4,576,202</b>	<b>4,855,965</b>
Prior period adjustment	-	117,892
Fund balances, end of year	<b>\$ 4,814,738</b>	<b>\$ 4,576,202</b>

**Development Corporation of Mercedes**  
**Comparative Balance Sheet – RBEG Fund**

<i>September 30</i>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Restricted cash and cash equivalents	\$ 247,618	\$ 181,549
Due from other funds	450	-
Notes receivable, net	525,941	621,158
<b>Total assets</b>	<b>\$ 774,009</b>	<b>\$ 802,707</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>		
Deferred inflows of resources		
Unavailable revenue - notes receivable	\$ 525,941	\$ 621,158
Total deferred inflows of resources	525,941	621,158
<b>Fund balances</b>		
Restricted	248,068	181,549
Total fund balances	248,068	181,549
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 774,009</b>	<b>\$ 802,707</b>

**Development Corporation of Mercedes**  
**Comparative Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – RBEG Fund**

<i>For the year ended September 30</i>	<b>2019</b>	<b>2018</b>
<b>Revenues</b>		
Interest and other	\$ 21,204	\$ 19,845
Miscellaneous revenue	-	27,753
Loan proceeds	46,503	45,635
Total revenues	67,707	93,233
<b>Expenditures</b>		
Current		
General government		
Economic development services	1,188	189,323
Total expenditures	1,188	189,323
Excess (deficiency) of revenues over (under) expenditures	66,519	(96,090)
Net change in fund balances	66,519	(96,090)
Fund balances, beginning of year	181,549	277,639
Fund balances, end of year	\$ 248,068	\$ 181,549

**Development Corporation of Mercedes**  
**Comparative Balance Sheet – IRP Fund**

<i>September 30</i>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Restricted cash and cash equivalents	\$ 180,043	\$ 162,115
Notes receivable, net	396,339	443,760
<b>Total assets</b>	<b>\$ 576,382</b>	<b>\$ 605,875</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>		
<b>Liabilities</b>		
Due to other funds	\$ 1,939	\$ -
<b>Total liabilities</b>	<b>1,939</b>	<b>-</b>
<b>Deferred inflows of resources</b>		
Unavailable revenue - notes receivable	396,339	443,760
<b>Total deferred inflows of resources</b>	<b>396,339</b>	<b>443,760</b>
<b>Fund balances</b>		
Restricted	178,104	162,115
<b>Total fund balances</b>	<b>178,104</b>	<b>162,115</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 576,382</b>	<b>\$ 605,875</b>

**Development Corporation of Mercedes**  
**Comparative Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – IRP Fund**

<i>For the year ended September 30</i>	<b>2019</b>	<b>2018</b>
<b>Revenues</b>		
Interest and other	\$ 18,627	\$ 19,625
Loan proceeds	38,965	50,202
Total revenues	57,592	69,827
<b>Expenditures</b>		
Current		
General government		
Economic development services	10,755	11,962
Debt service		
Principal on debt	24,563	24,319
Interest on debt	6,285	6,529
Total expenditures	41,603	42,810
Excess (deficiency) of revenues over (under) expenditures	15,989	27,017
Net change in fund balances	15,989	27,017
Fund balances, beginning of year	162,115	135,098
Fund balances, end of year	\$ 178,104	\$ 162,115



**REPORTS ON INTERNAL CONTROL AND COMPLIANCE MATTERS**

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

To the Board of Directors of  
The Development Corporation of Mercedes  
Mercedes, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Development Corporation of Mercedes, a component unit of the City of Mercedes, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Development Corporation of Mercedes' basic financial statements, and have issued our report thereon dated July 22, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Development Corporation of Mercedes' 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 Development Corporation of Mercedes' internal control. Accordingly, we do not express an opinion on the effectiveness of the Development Corporation of Mercedes' 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. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cary Riggs & Ingram, L.L.C.*

McAllen, Texas

July 22, 2020

### **3. Adjournment**

### **4. Discussion: FY 19-20 Budget**