

# Annual Financial Report

for the Year Ended September 30, 2018



# EDINBURG

Economic Development Corporation



**Cascos & Associates, PC**

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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# Cascos & Associates, PC

Certified Public Accountants  
Audit/Accounting/Tax/Consulting

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## INDEPENDENT AUDITORS' REPORT

To the President and Board of Directors of the  
Edinburg Economic Development Corporation  
Edinburg, Texas

### Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Edinburg Economic Development Corporation, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Edinburg Economic Development Corporation's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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



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

## **Opinions**

In our opinion, based on our audit and the report of the auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Edinburg Economic Development Corporation, as of September 30, 2018, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and pension information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Edinburg Economic Development Corporation's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the auditors. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2019, on our consideration of the Edinburg Economic Development Corporation internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Edinburg Economic Development Corporation's internal control over financial reporting and compliance.

*Cullen & Associates, PC*

Brownsville, Texas  
April 29, 2019



**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDING SEPTEMBER 30, 2018**

In this section of the Annual Financial and Compliance Report, we, the managers of Edinburg Economic Development Corporation (EEDC), discuss and analyze the EEDC's financial performance for the fiscal year ended September 30, 2018. Please read it in conjunction with the independent auditors' report page 1, and the EEDC's Basic Financial Statements, which begin on page 10.

**FINANCIAL HIGHLIGHTS**

***General Fund***

- At fiscal year-end, total fund balance for the General Fund was \$ 20,722,571.
- General Fund revenues were \$ 6,568,294 and General Fund expenses were \$ 4,434,046.

***Government-Wide***

- EEDC's governmental activities reported program expenses of \$3,778,761. General revenues totaled to \$6,270,871 and charges for services \$297,423, resulting in an increase in net assets of \$2,789,533.
- At year end, EEDC's governmental activities reported combined total net assets of \$29,616,007 and deferred outflows related to pensions of \$94,856.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities on pages 10 and 11. These statements provide information about the activities of the EEDC as a whole and present a longer-term view of EEDC's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner like the financial reports of a business enterprise.

Fund financial statements, starting on page 12, report the EEDC's operations in more detail than the government-wide statements by providing information about the EEDC's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as, what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements starting on page 17 provide narrative explanations or additional data needed for full-disclosure in the government-wide statements or the fund financial statements.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FISCAL YEAR ENDING SEPTEMBER 30, 2018

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The analysis of the EEDC's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the EEDC is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the EEDC's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the EEDC's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All the current year's revenues and expenses are recognized regardless of when cash is received or paid. The EEDC's revenues are divided into those provided by outside parties who share the costs of some programs. All the EEDC's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the EEDC's net assets and changes in them. The EEDC's net assets (the difference between assets and liabilities) provide one measure of the EEDC's financial health or financial position. Over time, increases or decreases in the EEDC's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the EEDC, however, you should consider non-financial factors as well, such as changes in the EEDC's property tax base and the condition of the EEDC's facilities.

In the Statement of Net Assets and the Statement of Activities, we reflect the EEDC in only one kind of activity:

- Governmental activities: Most of the EEDC's basic services are reported here, including general government and economic development. Sales taxes designated for economic development finance most of these activities.

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

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the EEDC as a whole. Certain funds are required by State law and by bond covenants. The EEDC's administration established several other funds to help it control and manage money for particular purposes. The EEDC has one fund type – governmental funds.

- Governmental funds: Most of the EEDC's basic services are reported in governmental funds. These funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the EEDC's general operations and the basic services it provides.

**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDING SEPTEMBER 30, 2018**

We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

*Statement of Net Assets (Government-Wide)*

The following table summarizes the EEDC's net assets as of September 30, 2018.

	Table I		
	Governmental Activities 2018	Governmental Activities 2017	Increase (Decrease)
<b>Assets</b>			
Current and other assets	\$ 20,799,240	\$ 18,634,453	\$ 2,164,787
Capital assets	<u>8,816,767</u>	<u>8,911,426</u>	<u>(94,659)</u>
Total assets	29,616,007	27,545,879	2,070,128
Deferred outflow of resources	<u>94,856</u>	<u>61,793</u>	<u>33,063</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 29,710,863</u>	<u>\$ 27,607,672</u>	<u>\$ 2,103,191</u>
<b>Liabilities</b>			
Current liabilities	\$ 815,316	\$ 798,021	\$ 17,295
Long-term liabilities	<u>17,638,937</u>	<u>18,416,266</u>	<u>(777,329)</u>
Total liabilities	18,454,253	19,214,287	(760,034)
Deferred inflow of resources	<u>56,648</u>	<u>-</u>	<u>56,648</u>
Total Liabilities and Deferred Inflow of Resources	18,510,901	19,214,287	(703,386)
<b>Net Position</b>			
Invested in capital assets net of related debt	3,876,039	(9,715,032)	13,591,071
Restricted	36,353	36,353	-
Unrestricted	<u>7,287,571</u>	<u>18,072,064</u>	<u>(10,784,493)</u>
Total Net Position	11,199,963	8,393,385	2,806,578
Total Liabilities and Net Position	<u>\$ 29,710,864</u>	<u>\$ 27,607,672</u>	<u>\$ 2,103,192</u>

The EEDC's assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$11,199,963 at the close of the current fiscal year. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – were \$7,287,571 at September 30, 2018.

**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDING SEPTEMBER 30, 2018**

The unrestricted net assets decreased because the invested in capital assets net of related debt increased from (\$9,715,032) to \$3,876,039 or by \$13,591,071. This increase is attributed to removing the bond debt of \$13,435,000 incurred for the note receivable from Santana.

***Statement of Activities (Government-Wide)***

The following table summarizes the change in the EEDC's net assets from its activities for the fiscal year ended September 30, 2018.

Table II

	Governmental Activities 2018	Governmental Activities 2017	Increase (Decrease)
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$ 297,423	\$ 183,352	\$ 114,071
General Revenues:			
Sales and use taxes	5,602,987	5,238,712	364,275
Investment earnings	488,234	2,520	485,714
Note receivable interest	165,484	-	165,484
Miscellaneous revenue	14,166	883,356	(869,190)
Total Revenue	<u>6,568,294</u>	<u>6,307,940</u>	<u>260,354</u>
<b>Expenses:</b>			
Economic development and assistance	3,061,452	6,483,209	(3,421,757)
Debt Bond Interest	717,309	739,447	(22,138)
Total Expenses	<u>3,778,761</u>	<u>7,222,656</u>	<u>(3,443,895)</u>
Increase in net assets before transfers and special items	2,789,533	(914,716)	3,704,249
Net position beginning	8,393,385	8,343,480	49,905
Prior period adjustment	17,045	964,621	(947,576)
Net position ending	<u>\$ 11,199,963</u>	<u>\$ 8,393,385</u>	<u>\$ 2,806,578</u>

The EEDC's total revenues were \$6,568,294. Sales tax contributed \$5,602,987 or 85.3% of total revenues. Notes receivable interest earned contributed \$165,484 or 2.5% of total revenue and investment earnings were \$488,234 or 7.4%. Miscellaneous revenue contributed \$14,166 or .2% of total revenue.

Total cost of all programs and services was \$3,778,761.

***Governmental Activities***

As reflected in the Statement of Activities, total expenses for governmental activities were \$3,778,761. General revenues of \$6,270,871 exceeded the total net expenses for governmental activities of \$3,481,338 by \$2,789,533.

**EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING SEPTEMBER 30, 2018**

**GENERAL FUND FINANCIAL ANALYSIS**

The General Fund is the chief operating fund of the EEDC. At the end of the current fiscal year, the total fund balance of the General Fund was \$20,722,571.

***General Fund Budgetary Highlights***

The EEDC did amend the General Fund Budget during the year. Those budget amendments fall into two categories. The first involved amendments moving funds from categories that did not need all the resources to categories with resource needs. The second involved adjusting the budgets to better reflect the needs and resources available.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of the 2017-2018 year, the EEDC had \$8,816,767 invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment.

***Debt***

At year-end, the EEDC had \$17,810,000 in notes outstanding versus \$18,560,000 last year, a decrease of approximately 4.38%.

Other obligations include accrued vacation pay and sick leave. More detailed information about the EEDC's long-term liabilities is presented in the notes to the financial statements.

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

Fiscal year 2019 is projected to be a year of continued growth. Both public and private development in building and infrastructure activity will serve to broaden the City's tax base and provide continuing employment opportunities for the residents. In 2018, the EEDC experienced a slight increase in sales tax revenue from 2017. Cash reserves are in place in accordance with the Investment Policy in secured investments.

The EEDC Board of Directors has approved the General Fund Budget for the Fiscal Year 2019 that includes funding for continued growth and development opportunities. Priority has been placed on the development of the North Industrial Park, the Edinburg International Airport, the Downtown District, and the infrastructure projects for the City of Edinburg. Revenues in the General Fund are modestly estimated at \$7,184,888. Budgeted expenditures are estimated at \$6,200,158. If these estimates are realized, the EEDC's budgetary General Fund balance is expected to increase modestly by the close of the 2019 fiscal year.

**EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING SEPTEMBER 30, 2018**

**CONTACTING THE EEDC'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the EEDC's finances and to show the EEDC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the EEDC's administration office at:

Edinburg Economic Development Corporation  
415 West University Drive  
Edinburg, Texas 78541

## **BASIC FINANCIAL STATEMENTS**

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2018**

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 2,128,423
Receivables, net	14,656,562
Restricted cash and cash equivalents	4,014,255
Capital assets, net of accumulated depreciation:	
Non-depreciable assets	6,294,036
Depreciable assets	<u>2,522,731</u>
Total assets	<u>29,616,007</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	<u>94,856</u>
Total deferred outflow of resources	<u>94,856</u>
<b>LIABILITIES</b>	
Accounts payable	14,970
Accrued liabilities	25,346
Noncurrent liabilities:	
Due within one year	775,000
Due in more than one year	<u>17,638,937</u>
Total liabilities	<u>18,454,253</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	<u>56,648</u>
Total deferred inflows of resources	<u>56,648</u>
<b>NET POSITION</b>	
Net investment in capital assets	3,876,039
Restricted for:	
Capital projects	10,607
Debt service	25,746
Unrestricted	<u>7,287,571</u>
Total net position	<u>\$ 11,199,963</u>

The accompanying notes are an integral part of these financial statements.

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

Function/Program Activities	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government				
Governmental activities:				
Conservation and development				
Economic development and assistance	\$ 3,061,452	\$ 297,423	\$ -	\$( 2,764,029)
Bond interest	717,309	-	-	( 717,309)
Total governmental activities	<u>3,778,761</u>	<u>297,423</u>	<u>-</u>	<u>( 3,481,338)</u>
Total Primary Government	<u>3,778,761</u>	<u>297,423</u>	<u>-</u>	<u>( 3,481,338)</u>
General revenues:				
Taxes:				
General sales and use taxes				5,602,987
Investment earnings				488,234
Note receivable interest				165,484
Miscellaneous Income				<u>14,166</u>
Total general revenues				<u>6,270,871</u>
Changes in net position				2,789,533
Net position-beginning				8,393,385
Prior period adjustment				<u>17,045</u>
Net position-ending				<u>\$ 11,199,963</u>

The accompanying notes are an integral part of these financial statements.

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2018**

	General	Other Governmental	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,092,070	\$ 36,353	\$ 2,128,423
Receivables (Net)	14,656,562	-	14,656,562
Restricted assets cash	4,014,255	-	4,014,255
Total assets	<u>\$ 20,762,887</u>	<u>\$ 36,353</u>	<u>\$ 20,799,240</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>			
Liabilities:			
Wages and salaries payable	\$ 14,970	\$ -	\$ 14,970
Accrued liabilities	25,346	-	25,346
Total liabilities	<u>40,316</u>	<u>-</u>	<u>40,316</u>
Fund balances:			
Restricted for debt service	-	25,746	25,746
Restricted for capital projects	-	10,607	10,607
Unassigned	20,722,571	-	20,722,571
Total fund balances	<u>20,722,571</u>	<u>36,353</u>	<u>20,758,924</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 20,762,887</u>	<u>\$ 36,353</u>	<u>\$ 20,799,240</u>

The accompanying notes are an integral part of these financial statements.

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

Fund balances Governmental Funds \$ 20,758,924

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$9,981,436 and accumulated depreciation was \$1,070,010. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position. 8,911,426

Long-term liabilities applicable to the City's governmental activities are not due and payables in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term are reported in the statement of net position. Bond premiums and discounts are also included and are amortized as an adjustment of interest expense in the statement of activities over the remaining life of the debt. ( 17,810,000)

The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. ( 94,659)

Current year GASB 68 changes in the EEDC's net pension plan liability, deferred outflows and inflows related to the pension plan resulted in a net effect of \$515,130. This net effect decreased the net position's ending balance. ( 477,261)

The implementation of GASB 75 to report the EEDC's share of the OPEB plan resulted in a prior period year adjustment in the amount of (\$13,295). The changes in the ending net position as a result of reporting the OPEB items was a decrease in the change in net position ( 88,467)

Net position of Governmental Activities \$ 11,199,963

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes:			
General sales and use taxes	\$ 5,602,987	\$ -	\$ 5,602,987
Lease and rental	297,423	-	297,423
Investment earnings	488,234	-	488,234
Note receivable interest	165,484	-	165,484
Miscellaneous Income	14,166	-	14,166
Total revenues	<u>6,568,294</u>	<u>-</u>	<u>6,568,294</u>
<b>EXPENDITURES</b>			
Current:			
Conservation and development			
Economic development and assistance	2,966,737	-	2,966,737
Debt service:			
Debt principal	750,000	-	750,000
Debt interest	717,309	-	717,309
Total expenditures	<u>4,434,046</u>	<u>-</u>	<u>4,434,046</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>2,134,248</u>	<u>-</u>	<u>2,134,248</u>
<b>NET CHANGE IN FUND BALANCE</b>	2,134,248	-	2,134,248
<b>FUND BALANCES, BEGINNING</b>	<u>18,588,323</u>	<u>36,353</u>	<u>18,624,676</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 20,722,571</u>	<u>\$ 36,353</u>	<u>\$ 20,758,924</u>

The accompanying notes are an integral part of these financial statements.

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

Net change in fund balances - governmental funds	\$ 2,134,248
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position	( 94,659)
Repayment of bond and notes payable principal is an expenditure in the governmental funds, but the repayment has no effect on the net position.	750,000
Current year GASB 68 changes in the EEDC's net pension plan liability, deferred outflows and inflows related to the pension plan resulted in a net effect of an increase to the net position's ending balance.	1,122
The implementation of GASB 75 to report the EEDC's share of the TRS OPEB plan resulted in a prior period adjustment in the amount of (\$13,295). The changes in the ending net position as a result of reporting the OPEB items was a decrease in the change in the net position.	( 1,178)
Change in net position of governmental activities	\$ <u>2,789,533</u>

The accompanying notes are an integral part of these financial statements.

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	Original Budget	Final Budget	Actual	Variance From Final Positive (Negative)
<b>REVENUES</b>				
General sales and use taxes	\$ 5,300,000	\$ 5,300,000	\$ 5,602,987	\$ 302,987
Lease and rental	230,334	230,334	297,423	67,089
Note receivable interest	1,246,944	1,246,944	165,484	(1,081,460)
Investment earnings	10,000	10,000	488,234	478,234
Miscellaneous income	200,000	200,000	14,166	(185,834)
Total revenue	<u>6,987,278</u>	<u>6,987,278</u>	<u>6,568,294</u>	<u>(418,984)</u>
<b>EXPENDITURES</b>				
Current:				
Conservation and development:				
Economic development and assistance	<u>5,590,249</u>	<u>4,796,105</u>	<u>2,966,737</u>	<u>1,829,368</u>
Total current expenditures	<u>5,590,249</u>	<u>4,796,105</u>	<u>2,966,737</u>	<u>1,829,368</u>
Debt service:				
Debt principal	978,833	978,833	750,000	228,833
Debt interest	<u>936,167</u>	<u>936,167</u>	<u>717,309</u>	<u>218,858</u>
Total debt service	<u>1,915,000</u>	<u>1,915,000</u>	<u>1,467,309</u>	<u>447,691</u>
Total expenditures	<u>7,505,249</u>	<u>6,711,105</u>	<u>4,434,046</u>	<u>2,277,059</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(517,971)</u>	<u>276,173</u>	<u>2,134,248</u>	<u>1,858,075</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(517,971)</u>	<u>276,173</u>	<u>2,134,248</u>	<u>1,858,075</u>
<b>FUND BALANCE, BEGINNING</b>	<u>18,588,323</u>	<u>18,588,323</u>	<u>18,588,323</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 18,070,352</u>	<u>\$ 18,864,496</u>	<u>\$ 20,722,571</u>	<u>\$ 1,858,075</u>

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EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Edinburg Economic Development Corporation (EEDC), a component unit of the City of Edinburg, was incorporated on April 23, 1990, under the Constitution of the State of Texas. The EEDC was organized on behalf of the City of Edinburg for the purpose of promoting the development of commercial, industrial, and manufacturing enterprises within its city limits and encouraging new employment opportunities.

The EEDC is considered a 501(c)(4) corporation by the Internal Revenue Service, and thus, its income is generally exempt from federal income taxation.

The Corporation prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Government Accounting Standards Board and other authoritative sources identified in the *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants and the requirements of contracts and grants of agencies from which it receives funds.

**A. REPORTING ENTITY**

Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," provides guidance for determining which governmental organizations should be included within a reporting entity. GASB No. 14 sets forth financial accountability as the basic criterion for inclusion of a government unit in a governmental reporting entity. Financial accountability is defined as appointment of a voting majority of the component units board and either the ability to impose its will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Due to the primary government's ability to impose its will on the EEDC, the EEDC is included as a component unit within the City of Edinburg's Audit Comprehensive Annual Financial Report and is an integral part thereof.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Edinburg EDC's non-fiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State funds, grants, and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the EEDC operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use or directly benefit from goods or services provided by a given function or segment of the EEDC. The "grants and contributions" column includes amounts paid by organizations outside the EEDC to help meet the operational or capital requirements of given function. If a revenue is not a program revenue, it is a general revenue used to support all of the EEDC's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide State of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for the EEDC operations, they are not included in the government-wide statements. The EEDC considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements use 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 the related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and the expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The EEDC considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of sales taxes. Sales tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The EEDC considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until received. Investment earnings are recorded as earned, since they are both measurable and available.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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**D. FUND ACCOUNTING**

The EEDC reports the following major governmental funds:

1. **The General Fund** – The primary operating fund is the only major fund in the current fiscal year. It accounts for all of the financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the EEDC reports the following government fund types:

1. **Debt Service Fund** – Is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The debt service fund is not reported as a major fund.
2. **Capital Projects Fund** – Is used to account for financial resources to be used for the acquisition of capital assets or construction of major capital facilities. None of the capital projects funds are major.

**E. OTHER ACCOUNTING POLICIES**

1. In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as, issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as, bond issuance costs, during the current period. 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 the actual debt proceeds received, are reported as debt service expenditures.

2. Capital assets, which include land, buildings, furniture, and equipment [and infrastructure assets] are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the EEDC as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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Buildings, furniture, and equipment of the EEDC are depreciated using the straight line method over the following estimated useful lives. The estimated lives range from 5 to 20 years for equipment, 10 to 40 years for improvements, and 40 years for buildings.

3. *Restricted Assets:* Certain proceeds of enterprise fund revenue bonds, as well as, certain resources set aside for their repayment, are classified as restricted assets on the Balance Sheet because their use is limited by applicable bond covenants.
4. Deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Monies collected in advance from federal or state agencies are recorded as revenue in the year for which the expenditures are incurred.
5. When the EEDC incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
6. In the fund financial statements, governmental funds report fund balance based on the following classifications: non-spendable, restricted, committed, assigned or unassigned. Restricted fund balances are amounts legally restricted by outside parties for use by a specific purpose. Commitments of fund balance require approval of the Board of Directors through formal action. The Board of Directors delegates the responsibility to assign fund balance to the Executive Director or his/her designee, when appropriate. Funds will be utilized in the following order: restricted, committed, assigned, and unassigned.
7. In June, 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment to GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. The objective of GASB Statement No. 68 is to improve accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through certain trusts. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. GASB Statement No. 68 also identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, GASB Statement No. 68 addresses the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Management is evaluating the effects that the full implementation of GASB Statement No. 68 will have on its financial statements for the year ended August 31, 2015.
8. During fiscal year 2018, the EEDC adopted GASB Statement No. 75 for Accounting and Reporting for Other Post-Employment Benefits Other Than Pensions.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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II. **DEPOSITS AND INVESTMENTS**

The EEDC Depository Agreement requires its designated financial institution to secure by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. At September 30, 2018, the EEDC's deposits were entirely covered by federal deposit insurance or were secured by collateral held by the pledging financial institution's agent in the EEDC's name, pursuant to the Depository Agreement. The bank balance consisted of the following at September 30, 2018:

Bank	Bank Statement Balance
Greater State Bank	\$ 25,746
Greater State Bank	10,607
Greater State Bank	1,468,031
Plains Capital Bank	727,653
Plains Capital Bank	2,199,165
Texas National Bank	1,782,218
Total Bank Deposits	<u>\$ 6,213,420</u>

The Public Funds Investment Act (Government Code, Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the EEDC to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity (2) portfolio diversification (3) allowable investments (4) acceptable risk levels (5) expected rates of return (6) maximum allowable stated maturity of portfolio investments (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio (8) investment staff quality and capabilities (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas (2) certificates of deposit (3) certain municipal securities (4) money market savings accounts (5) repurchase agreements (6) bankers acceptance (7) Mutual Funds (8) Investment Pools (9) guaranteed investment contract (10) and common trust funds.

The Act also requires the EEDC to have independent auditors perform test procedures related to investment practices as provided by the Act. The EEDC is in substantial compliance with the requirements of the Act and with local policies.

*Credit Risk:* To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the EEDC limits investments to Certificates of Deposits, Public Funds Investment Pools and Guaranteed Investment Contracts, collateralized by the U.S. Government Securities. As of September 30, 2018, the EEDC's investments were secured by the U.S. Government Securities, pursuant to the Depository Agreement.

*Custodial Credit Risk for Investments:* State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the EEDC complies with this law, it has no custodial credit risk for deposits.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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*Concentration of Credit Risk:* To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the investment portfolio shall be diversified in terms of investment instruments maturity scheduling, and financial institutions. To further limit the risk, all of the EEDC has 100% of its investment in Certificates of Deposits.

*Interest Rate Risk:* To limit the risk that changes in interest rates will adversely affect the fair value of investments, the EEDC requires that the investments shall be monitored by using specific identification.

*Foreign Currency Risk for Investments:* The EEDC limits the risk that changes in exchanges rates will adversely affect the fair value of an investment. At year-end, the EEDC was not exposed to foreign currency risk.

III. **AGGREGATE RECEIVABLES**

The aggregate receivables at September 30, 2018, were:

Notes Receivable - Santana Textile	\$ 13,615,908
Accounts receivable	1,340,654
Allowance for uncollectible	<u>(300,000)</u>
Total Receivable, net	<u>\$ 14,656,562</u>

The notes receivable (Santana Textiles) net account is comprised of two (2) notes from Santana Textiles, LLC. The first note originated on April 16, 2010, in the amount of \$5,000,000. The second note originated on August 30, 2011, in the amount of \$10,000,000. Listed below are dates in which the EEDC and Santana Textiles, LLC agreed to Reinstatement, Modify, Renew, and Extend the Note Receivable agreements.

1. December 21, 2015
2. June 21, 2016
3. March 21, 2017
4. December 17, 2017

Under the most recent modification, December 17, 2017, the terms and amounts agreed for September 30, 2018, were as follows:

The \$5,000,000 note receivable from Santana Textiles, LLC has payments of \$23,167 monthly, including principal and interest (4.25%) beginning November 21, 2017, and ending upon maturity on October 21, 2022.

The \$10,000,000 note receivable from Santana Textiles, LLC has payments of \$52,658 monthly, including principal and interest (4.25%) beginning November 21, 2017, and ending upon maturity on October 21, 2022.

The combined balance of the notes receivable is \$13,615,908. An allowance for uncollectible has been setup at 2% of the note receivable balance equaling \$272,318 which brings the notes receivable, net balance to \$13,343,590. A Cross-Collateralization and Cross-Default and Security Agreement was executed on August 30, 2011 and recorded in the Office of the County Clerk of Hidalgo County, Texas as Document No. 2237059 for both Notes.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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IV. **ACCOUNTS PAYABLE**

The accounts payable at September 30, 2018, was \$14,970.

V. **REPLACEMENT FOR RESERVES**

As of September 30, 2018, the replacement for reserves consisted of the following:

<u>Account</u>	<u>Reserve Required</u>	<u>Balance at 9/30/2018</u>	<u>Overfunded/(Underfunded)</u>
Greater State Bank- Series 2015 Reserves	\$ 1,467,450	\$ 1,468,031	\$ 581

On March 27, 2018, the EEDC Board of Directors held a Board meeting and authorized the Executive Director to replenish the Reserve account of the Sales Tax Revenue Refunding Bonds, Taxable Series 2015 to its original balance of \$1,467,450. The EEDC Board took the steps to correct the inappropriate utilization of the Reserve Account funds by the EEDC to meet its semi-annual 2015 bond payments. At September 30, 2018, the Reserve Account had a balance of \$1,468,031.

VI. **REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

During the current year, revenues from local and intermediate sources consisted of the following:

	<u>General Fund</u>
Sales and Use Taxes	\$ 5,602,987
Investment Income	488,234
Rental Income	297,423
Note Receivable Interest	165,484
Miscellaneous Income	14,166
Total	<u>\$ 6,568,294</u>

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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**VII. CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance as of 09/30/17	Primary Government Changes during the Year		Balance as of 09/30/18
		Increases	Adjustments	
Government Activities				
Land	\$ 6,294,656	\$ -	\$ (620)	\$ 6,294,036
Buildings	3,510,343	-	-	3,510,343
Furniture and equipment	176,437	-	(3)	176,434
Totals at Historic Cost	<u>9,981,436</u>	<u>-</u>	<u>(623)</u>	<u>9,980,813</u>
Less Accumulated Depreciation				
Buildings	(902,591)	(90,009)	-	(992,600)
Furniture and equipment	(167,419)	(4,027)	-	(171,446)
Total Accumulated Depreciation	<u>(1,070,010)</u>	<u>(94,036)</u>	<u>-</u>	<u>(1,164,046)</u>
Government Activities				
Capital Assets, Net	<u>\$ 8,911,426</u>	<u>\$ (94,036)</u>	<u>\$ (623)</u>	<u>\$ 8,816,767</u>

**VIII. LONG-TERM DEBT**

Long-term debt consists of the following at September 30, 2018:

\$13,715,000 Sales Tax Revenue Refunding Bonds 2015 to the bank of New York Mellon Trust Company, N.A.; payable in monthly installments of \$8,333 plus interest of 5.55%, maturing August, 2035, and is collateralized by economic development sales and use tax receipts.	\$ 13,435,000
\$2,300,000 Bond Issue Series 2013A; payable in monthly installments of \$18,750 plus interest of 3.12%, maturing November 30, 2024, and is collateralized by economic development sales and use tax receipts.	1,465,000
\$4,575,000 Bond Issue Series 2013B; payable in monthly installements of \$37,500 plus interest of 3.04%, maturing November 30, 2024, and is collateralized by economic development sales and use tax receipts.	2,910,000
	<u>\$ 17,810,000</u>

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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Annual debt service requirements to maturity for the EEDC's general long-term debt are as follows:

Fiscal year	Principal	Interest
2019	\$ 775,000	\$ 692,425
2020	800,000	667,761
2021	825,000	642,304
2022	850,000	616,042
2023	875,000	589,001
2024-2028	4,880,000	2,446,917
2029-2033	6,000,000	1,321,360
2034-2038	2,805,000	127,688
Total	<u>\$ 17,810,000</u>	<u>\$ 7,103,498</u>

A summary of changes in long-term debt follows:

<i>Governmental Activities</i>	Balance 9/30/2017	Additions	Reductions	Balance 9/30/2018	Current Portion
Bonds Payable:					
Series 2013A	\$ 1,685,000	\$ -	\$ 220,000	\$ 1,465,000	\$ 225,000
Taxable Series 2015	13,530,000	-	95,000	13,435,000	100,000
Series 2013B	3,345,000	-	435,000	2,910,000	450,000
Total Bonds Payable:	<u>18,560,000</u>	<u>-</u>	<u>750,000</u>	<u>17,810,000</u>	<u>775,000</u>
Net Pension Liability	578,057	-	60,788	517,269	-
OPEB Liability	83,554	3,114	-	86,668	-
Total Long Term Debt	<u>\$ 19,221,611</u>	<u>\$ 3,114</u>	<u>\$ 810,788</u>	<u>\$ 18,413,937</u>	<u>\$ 775,000</u>

**IX. 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 of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the government-wide financial statements, deferred outflows include deferred charges on refunding of the bonds.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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As of September 30, 2018, the various components of deferred outflows and inflows of resources are as follows:

Deferred Outflow Related to TMRS Pension	\$ 93,244
Deferred Outflow Related to OPEB	<u>1,612</u>
Total deferred outflows	<u>\$ 94,856</u>
Deferred Inflow Related to TMRS Pension	\$ 53,236
Deferred inflow Related to OPEB	<u>3,412</u>
Total deferred inflows	<u>\$ 56,648</u>

***Employee Retirement Benefit***  
***Texas Municipal Retirement System***

*Plan Description*

The EEDC participates as one of the 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS), thru the City of Edinburg (City).

TMRS is an agency created by the State of Texas and administered in accordance with the 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. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a 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).

All eligible employees of the EEDC are required to participate in TMRS, as are employees of the City.

All terms, conditions and benefits of EEDC employees are identical to the City's employees and covered under the City's plan with TMRS.

*Benefits Provided*

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 and apply to EEDC employees.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed 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 benefit as a 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, 2017 valuation and measurement date, the following city employees which include EEDC employees were covered by the benefit terms:

As of December 31, 2017

Inactive employees or beneficiaries currently receiving benefits	235
Inactive employees entitles to but not yet receiving benefits	286
Active employees	818
Total	<u><u>1,339</u></u>

*Contributions*

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200% both as adopted by the governing 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.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.62% and 14.70% in the calendar years 2016 and 2017, respectively. The City's contribution to TMRS for the year ended September 30, 2018, were \$5,094,161 and were equal to the required contributions.

*Net Pension Liability*

The EEDC's Net Pension Liability (NPL) is included in the City's Net Pension Liability (NPL) and was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. There is no specific information as it relates to the EEDC's portion.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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*Actuarial Assumptions*

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Overall payroll growth	3.00%
Investment rate of return	6.75%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males' rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciations, as well as, the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

The discount rate used to measure Total Pension Liability was 6.75%. The projections cash flow 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.

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*Schedule of Changes in Net Pension Liability*

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 129,423,832	\$ 95,505,098	\$ 33,918,734
Changes for the year:			
Service cost	5,271,339	-	5,271,339
Interest	8,778,659	-	8,778,659
Change of benefit terms	-	-	-
Difference between expected and actual experience	1,028,193	-	1,028,193
Changes of assumptions	-	-	-
Contributions - employer	-	5,094,161	(5,094,161)
Contributions - employee	-	2,401,271	(2,401,271)
Net investment income	-	13,244,540	(13,244,540)
Benefit payments, including refunds of employee contributions	(4,010,576)	(4,010,576)	-
Administrative expense	-	(68,598)	68,598
Other changes	-	(3,476)	3,476
Net changes	11,067,615	16,657,322	(5,589,707)
Balance at 12/31/2017	<u>\$ 140,491,447</u>	<u>\$ 112,162,420</u>	<u>\$ 28,329,027</u>

The amount presented above includes pension liabilities for the City's discretely presented component units. At September 30, 2018, the City's Governmental Activities portion of the net pension obligation was \$21,362,082, and the Business type activities was \$6,119,177, the Boys & Girls Club of Edinburg's portion was \$330,498, and the EEDC's portion was \$517,269. The total net pension liability for the Primary Government was \$28,329,026.

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

The following presents the Net Pension Liability of the City, calculated using the discount rate of 6.75%, as well as, what the City's Net Pension Liability would be 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 Single Rate Assumption 6.75%	1% Increase 7.75%
Governmental Activities net pension liability	\$ 39,223,613	\$ 21,362,082	\$ 7,015,866
Business type activities net pension liability	11,235,620	6,119,177	2,009,698
Boys & Girls Club	606,838	330,498	108,544
Component unit's net pension liability	949,774	517,269	169,885
Total net pension liability	<u>\$ 52,015,845</u>	<u>\$ 28,329,026</u>	<u>\$ 9,303,993</u>

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

For the year ended September 30, 2018, the City and component units recognized a combined pension expense of \$5,062,767. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 843,599	\$ 963,398
Changes in actuarial assumptions	-	177,641
Differences between projected and actual investment earnings	-	2,948,654
Contributions subsequent to the measurement date 12/31/2017	3,908,751	-
Total	<u>\$ 4,752,350</u>	<u>\$ 4,089,693</u>

Of the total deferred outflows relating to the pension plan, \$3,573,491 is reported in Governmental Activities, \$1,011,632 is reported in Business-Type Activities. The Boys and Girls Club of Edinburg's portion is \$73,983, and the remaining \$93,244 pertains to the EEDC.

Of the total deferred inflows relating to the pension plan, \$3,158,181 is reported in Governmental Activities, \$800,779 is reported in Business-Type Activities.

The Boys and Girls Club of Edinburg's portion is \$77,497, and the remaining \$53,236 pertains to the EEDC. \$3,908,751 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and the inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending September 30,</b>	<b>Net deferred outflows (inflows) of Resources</b>
2018	\$ (211,437)
2019	(387,395)
2020	(1,425,964)
2021	(1,326,514)
2022	105,218
	<u>\$ (3,246,092)</u>

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
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**X. OTHER POST EMPLOYMENT BENEFITS**

Plan Description

The EEDC, thru the City also participates in the cost sharing multiple-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.

Benefits

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 plan.

Contributions

The EEDC, thru the City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

As of December 31, 2017, the following employees were covered by the benefits terms:

Inactive employees currently receiving benefits	178
Inactive employees entitled to but not yet receiving benefits	24
Active employees	818
Total	<u>1,020</u>

Accounting Policy

GASB 75 requires employers to recognize the total OPEB liability and the OPEB expense on their financial statements. The OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability. An irrevocable trust has not been established that meets the criteria in paragraph 4 of GASB Statements No. 75. Therefore, the Plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
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Funding Policy

The benefits levels and contribution rate are approved annually by the city management and the City Council as part of the budget process. By the City not contributing anything toward this plan in advance, the city employs a pay-as-you-go method through ensuring the annual retiree contribution are equal to the benefits that are paid on behalf of the retirees. OPEB expenses for the SDBF program as actuarially determined for the city was \$114,362 and \$1,735,302 for Health Insurance program.

Actuarial Methods and Assumptions

Significant methods and assumptions used in the December 31, 2017, actuarial valuation for the SDBF program are as follows:

**SDBF Program**

Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Discount rate*	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates - service retirees	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.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar 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.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
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**Health Insurance Program**

Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Discount Rate:	
Prior Measurement Date	3.63%
Measurement Date	4.18%
Mortality Table	RP-2014 Total Dataset Mortality Table fully generational using MP-2018 mortality improvement scale.
Health Care Cost Trends	5.50% from 2018 to 2019 decreasing to an ultimate rate of 3.85% by 2075

These assumptions are estimates of the future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investments income and compensations increase. The actuarial valuation report determines, as of the actuarial valuations date, the service cost, total OPEB liability, and related actuarial present value of projected benefits.

**Total OPEB Liability**

The total OPEB Liability for the SDBF and Health Insurance Program respectively of \$1,398,232 and \$19,081,563 was determined by an actuarial valuation as of December 31, 2017. The total OPEB liability and related information are as follows for the city at December 31, 2017:

**SDBF Program**  
**As of Measurement Date of December 31, 2017**

*Actuarial Valuation and Measurements Date, December 31, Total OPEB Liability*

Total OPEB Liability – beginning of year 2016	\$ 1,186,421
Changes for The year	
Service COST	51,444
Interest on Total OPEB Liability	45,625
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	125,031
Benefit payments **	(10,289)
Net changes	211,811
Total OPEB Liability – end of year 2017	\$ 1,398,232

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
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**Health Insurance Program**

	Total OPEB Liability	Plan Fiduciary Net Position.	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at 09/30/17	\$ 18,864,934	\$ -	\$ 18,864,934
Changes for the year:			
Service cost	1,149,843	-	1,149,843
Interest	715,606	-	715,606
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	(1,041,173)	-	(1,041,173)
Contributions - employer	-	607,647	(607,647)
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments, including refunds of employee contributions	(607,647)	(607,647)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	216,629	-	216,629
<b>Balance at 09/30/2018</b>	<b>\$ 19,081,563</b>	<b>\$ -</b>	<b>\$ 19,081,563</b>

**OPEB Expense and Deferred Outflows of Resources Related to OPEBs:**

For the year ended September 30, 2018, the city recognized OPEB expenses of \$ 114,362 for the SDBF Program and \$1,735,302 for the Health Insurance program.

**OPEB Expense:**

Service cost	\$ 51,444
Interest on total OPEB liability	45,625
Changes in benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	-
Changes in assumptions or other inputs	17,293
<b>Total OPEB expense</b>	<b>\$ 114,362</b>

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September 30, 2018

**Health Insurance Program**

**OPEB Expense:**

Service cost	\$1,149,843
Interest on total OPEB liability	715,606
Changes in benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(130,147)
Total OPEB expense	<u>\$1,735,302</u>

The city shall include contributions made subsequent to the measurement date through the City's fiscal year end as deferred outflows resources.

Other amounts to reported as deferred outflow related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflows)/Outflows of Resources:	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions and other inputs - OPEB Death	-	107,738
Changes in assumptions and other inputs - OPEB Health	(911,026)	-
Contributions made subsequent to measurement date	N/A	40,463
Total (excluding contributions made subsequent to measurement date)	<u>\$ (911,026)</u>	<u>\$ 148,201</u>

**Sensitivity of the Total OPEB Liability to changes in the Discount Rate**

The following presents the total OPEB liability of the City, calculated using the discount rate of (3.31%) as well as what the city's total OPEB liability would be if it were calculated using a discount rate that is 1- percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current discount rate:

**SDBF Program - Current Discount**

	1% Decrease (2.31%)	Rate (3.31%)	1% Increase (4.31%)
Total OPEB Liability	\$ 1,727,279	\$ 1,398,232	\$ 1,149,908

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**Health Insurance Program - Current Discount**

	1% Decrease (2.31%)	Rate (3.31%)	1% Increase (4.31%)
Total OPEB Liability	\$ 23,572,042	\$ 19,081,563	\$ 15,692,705

The City's contributions to the TMRS SDBF for the year ended 2018 was \$40,463 which equaled the required contributions.

Schedule of Contributions  
(retiree-only portion of the rate, for OPEB)

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2017	0.14%	0.03%
2018	0.15%	0.03%

**XI. RISK MANAGEMENT**

The EEDC maintains insurance for all business and government functions of which it may be liable for claims, through the City of Edinburg, Texas. The more significant of these include general liability insurance, property insurance covering the EEDC's industrial park buildings and structures, and the Executive Director and Board of Directors. Employees were covered by a fully-insured health insurance plan provided by the City of Edinburg. There have been no significant reductions in insurance coverage.

**XII. TAX INCREMENT REINVESTMENT ZONE**

In 1997, the City Council approved Ordinance No. 1915 which created a tax increment reinvestment zone pursuant to Chapter 311 of the Texas Code. This was originally designated as Reinvestment Zone Number One, City of Edinburg, Texas (1997 Zone). However, no public or private improvements were made to the 1997 Zone and expected development never materialized. Therefore, on November 18, 2008, an ordinance was passed terminated the 1997 zone. However, the new zone established in 2007 (TIRZ #1 described below) was inadvertently named Reinvestment Zone Number One, City of Edinburg, Texas. Since the 1997 Zone was terminated, there was no need to change the name of the 2007 tax increment zone. There is no Tax Increment Zone Number Two. Reinvestment Zone Number One, City of Edinburg, Texas (TIRZ #1) is a reinvestment zone created by the City of Edinburg, pursuant to the Tax Increment Financing Act, Chapter 311, Texas Tax Code. Creation of the tax increment zone along with an economic development agreement between the City of Edinburg, Hidalgo County, the Edinburg Economic Development Corporation, the City of Edinburg Local Government Finance Corporation, and the

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**NOTES TO FINANCIAL STATEMENTS**  
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developer, allowed for property tax increment funding to support development activities relating to the development of a retail shopping center containing approximately 800,000 square feet in multiple buildings. On March 16, 2015, the development agreement with First Harford Realty Corporation dated February 20, 2007 and subsequently amended on August 16 and November 15, 2011 was cancelled. All work under the agreement had been performed by the developer and the City desired to use TIRZ #1 to help finance the repayment of debt issued for the construction of a new municipal facility in TIRZ #4.

Under the developer agreement, the City was required to provide a Chapter 380 Grant Reimbursement equal to the difference between \$8,000,000 and the public infrastructure reimbursement. This was being paid from the City's dedicated 1% sales tax revenues within TIRZ #1. The remaining amount due to the developer under the agreement was \$1,575,266. In addition, the EEDC owed a remaining balance of \$1,975,684, for a total amount of \$3,547,950. Under the agreement to terminate the economic development agreement, both the City and the EEDC agreed to pay off these balances. In return, the developer would release both the City and the EEDC from future obligations under the agreement. The amount needed to pay off this balance was provided by a contribution from the Vipers Arena, LLC. Tax increment revenues received by the City of Edinburg are deposited into a separate bank account designated for the tax increment reinvestment zone and transferred to the City of Edinburg Local Government Finance Corporation for the purpose of discharging obligations arising out of Public Infrastructure Bonds issued for which tax increment revenues have been pledged. Other than the City of Edinburg and Hidalgo County, no other taxing jurisdictions are participating in TIRZ #1. At the expiration of the term of the tax increment zone, any remaining tax increment revenues will be distributed into the general fund of the City in proportion to its contributions to the zone for the tax year most recently ended.

Reinvestment Zone Number One, City of Edinburg, Texas, has a Board of Directors composed of six members, with one of the members appointed by Hidalgo County and the remaining five members appointed by the City Council of the City. Each Board Member serves a two-year term. The zone is managed by the City of Edinburg Local Government Finance Corporation, which is presented as a blended component unit of the City. Reinvestment Zone Number Three, City of Edinburg, Texas (TIRZ #3), is a reinvestment zone created by the City of Edinburg, pursuant to the Tax increment Finance Act, Chapter 311, Texas Tax Code. The zone was created on November 18, 2008. Creation of the tax increment zone along with an economic development agreement between the City of Edinburg, Hidalgo County, the City of Edinburg Local Government Finance Corporation, and the developer, allows for property tax increment funding to TIRZ #3 to support qualifying development activities related to 704 acres of land located in the northeast quadrant of the City. The developer will be responsible for the development and construction of the project at their cost and expense. In exchange, taxes generated in TIRZ #3 will reimburse the developer for all, or a portion of reimbursable public infrastructure costs as defined in the agreement. Tax increment revenues received by the City of Edinburg are deposited into a separate bank account designated for the tax increment reinvestment zone and transferred to the City of Edinburg Local Government Finance Corporation for the purpose of discharging obligations under the development agreement. Other than the City of Edinburg and Hidalgo County, no other taxing jurisdictions are participating in TIRZ #3. Per the development agreement, the City will contribute the lesser of the tax rate of \$0.52 per \$100 of assessed valuation or the City's then current maintenance and operations tax rate for the applicable year. The zone will terminate upon the earlier of (i) the date on which the reimbursement commitments or tax increment bonds have been fully paid or defeased

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
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in accordance with the terms of the development agreement or (ii) 30 years (December 31, 2045) from the effective date of the ordinance creating the zone. At the expiration of the term of the tax increment zone, any remaining tax increment revenues will be distributed into the general fund of the City in proportion to its contributions to the zone for the tax year most recently ended. Reinvestment Zone Number Three, City of Edinburg, Texas, has a Board of Directors composed of five members, with one of the members appointed by Hidalgo County, and the remaining four members appointed by the City Council of the City. Each Board Member serves a two-year term. The zone is managed by the City of Edinburg Local Government Finance Corporation, which is presented as a blended component unit of the City.

Reinvestment Zone Number Four, City of Edinburg, Texas (TIRZ #4), is a reinvestment zone created by the City of Edinburg, pursuant to the Tax Increment Financing Act, Chapter 311, Texas Tax Code. The zone was created on November 19, 2013. Creation of the tax increment zone allows for property tax increment funding to TIRZ #4 to support financing of costs associated with the construction of public improvements related to several possible development and redevelopment projects, including the construction of a municipal facility. On March 1, 2015, an agreement was entered into between the City, the LGFC, TIRZ #1, TIRZ #4, and the EEDC. Under the terms of the agreement, the LGFC will aid in the financing, constructing, furnishing, and owning of an indoor multipurpose event center. The LGFC will be the landlord and lease the municipal facility to Vipers Arena, LLC as further described in the Lease and Development Agreement. In connection with this agreement, the LGFC issued bonds to finance the construction. Under the terms of the agreement, the developer was responsible for half of the construction costs of the municipal facility and any cost overruns. As of the end of the year, no tax increments have been levied or collected within the zone. The zone will terminate on December 31, 2045, unless otherwise terminated earlier as a result of payment in full of all project costs or tax increment bonds, if issued. Reinvestment Zone Number Four, City of Edinburg, Texas, has a Board of Directors composed of five members, with one of the members appointed by the Hidalgo County and the remaining four members appointed by the City Council of the City. Each Board Member serves a two-year term. The zone is managed by the City of Edinburg Local Government Finance Corporation, which is presented as a blended component unit of the City.

**XIII. RELATED PARTY TRANSACTIONS**

The EEDC has a receivable for sales tax revenue sharing from the City of Edinburg. The receivable balance as of September 30, 2018 was \$993,954.

**XIV. LITIGATION**

The EEDC is a plaintiff in an ongoing lawsuit. In the event that the case is tried, and a ruling made in favor of the defendant, the EEDC may be responsible for the payment of the defendant's 12 month's salary, benefits and unused sick and vacation leave. EEDC's Management and legal counsel estimate an amount of approximately \$495,338, but they have also estimated that he has a 30% likelihood of establishing a liability, and if damages are awarded, a reasonable jury would award approximately \$25,000.

EDINBURG ECONOMIC DEVELOPMENT CORPORATION  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2018

XV. **SUBSEQUENT EVENTS**

The Corporation considered all events through April 29, 2019, the financial statement issuance date.

XVI. **PRIOR PERIOD ADJUSTMENTS**

The EEDC recognized prior period adjustments to reflect the: 1) Increase of \$66,459 to the long-term debt beginning balance, 2) during fiscal year 2018, the City implemented GASB statement No.75 for Accounting and financial Reporting for postemployment benefits other than pensions. The implementation of GASB 75 required a prior period adjustment to decrease the net position beginning balance by \$(87,289), 3) the EEDC's Net pension liability required an increase to net position of \$37,875 of the Texas Municipal Retirement System. The net prior period adjustment totaled \$17,045, as shown in the Statement of Activities.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**SCHEDULE OF CHANGES IN NET POSITION LIABILITY AND RELATED RATIOS**  
**AS REPORTED BY THE CITY OF EDINBURG, WHICH INCLUDES THE EEDC**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**SEPTEMBER 30,**

	2015	2016	2017	2018
<b>A. Total pension liability</b>				
Service cost	\$ 3,905,080	\$ 4,465,697	\$ 4,897,533	\$ 5,271,339
Interest (on the Total Pension Liability)	7,415,662	7,952,791	8,221,195	8,778,659
Difference between expected and actual expenses	(554,280)	(237,828)	(1,032,455)	1,028,193
Change of assumptions	-	(377,240)	-	-
Benefit payments, including refunds of employee contributions	(3,096,759)	(3,651,078)	(4,018,322)	(4,010,576)
Net change in total pension liability	\$ 7,669,703	\$ 8,152,342	\$ 8,067,951	\$ 11,067,615
Total pension liability - beginning	105,533,866	113,203,569	121,355,911	129,423,832
Total pension liability - ending	\$ 113,203,569	\$ 121,355,911	\$ 129,423,862	\$ 140,491,447
<b>B. Plan fiduciary net position</b>				
Contributions - employer	3,999,261	4,444,421	4,621,389	5,094,161
Contributions - employee	1,968,692	2,127,970	2,222,723	2,401,271
Net investment income	4,388,353	123,828	5,874,570	13,244,540
Benefit payments, including refunds of employee contributions	(3,096,759)	(3,651,078)	(4,018,322)	(4,010,576)
Administrative expense	(45,809)	(75,414)	(66,307)	68,598
Other	( 3,766)	( 3,725)	( 3,572)	( 3,476)
Net change in plan fiduciary net position	\$ 7,209,972	\$ 2,966,002	\$ 8,630,481	\$ 16,794,518
Plan fiduciary net position-beginning	76,698,643	83,908,615	86,874,617	95,505,098
Plan fiduciary net position-ending	\$ 83,908,615	\$ 86,874,617	\$ 95,505,098	\$ 112,299,616
<b>C. Net pension liability/(asset)</b>				
	\$ 29,294,954	\$ 34,481,294	\$ 33,918,764	\$ 28,191,831
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.12%	71.59%	73.79%	79.84%
Covered Employee Payroll	\$ 28,124,170	\$ 30,399,572	\$ 317,403,259	\$ 34,296,282
City's Net Pension Liability as a Percentage of Covered Employee Payroll	104.16%	113.43%	106.86%	82.60%

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 Edinburg and EEDC will present information for those years for which information is available. This exhibit includes EEDC's information.

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**SCHEDULE OF CONTRIBUTIONS**  
**AS REPORTED BY THE CITY OF EDINBURG, WHICH INCLUDES THE EEDC**  
**FOR THE YEAR ENDED SEPTEMBER 30,**

September 30,	2015	2016	2017	2018
Actuarially determined contribution	\$ 4,351,814	\$ 4,586,475	\$ 4,621,389	\$ 5,094,161
Contributions in relation to the actuarially determined contribution	4,351,814	4,586,475	4,621,389	5,094,161
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 28,124,170	\$ 30,399,572	\$ 31,740,329	\$ 34,296,282
Contributions as a percentage of covered employee payroll	15.47%	15.09%	14.56%	14.85%

**Notes to Schedule of Contributions**

**Valuation Date:**

**Notes**

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smooth 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	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.

**Other Information:**

**Notes**

There were no benefit changes during the year.

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**SCHEDULE OF CHANGES IN THE TOTAL OPEB HEALTH BENEFITS LIABILITY**  
**AS REPORTED BY THE CITY OF EDINBURG, WHICH INCLUDES THE EEDC**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**Total Pension Liability**

Service Cost	\$ 1,149,843
Interest	715,606
Change of assumptions	(1,041,173)
Benefit payments	(607,647)
<b>Net Change in Total OPEB Liability</b>	<u>216,629</u>
<b>Total OPEB Liability - Beginning</b>	<u>18,864,934</u>
<b>Total OPEB Liability - Ending (a)</b>	<u><u>\$ 19,081,563</u></u>

**Plan Fiduciary Net Position**

Contributions - employer	\$ 607,647
Benefit payments	<u>(607,647)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	-
<b>Plan Fiduciary Net Position - Beginning</b>	<u>-</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ -</u></u>

**Net OPEB Liability - Ending (a)-(b)** \$ 19,081,563

Plan Fiduciary Net Position as a Percentage  
of the Total Pension Liability 2.05%

Covered Employee Payroll \$ 29,675,741

City's Net OPEB Liability as a Percentage  
of Covered Employee Payroll 64.30%

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**SCHEDULE OF CONTRIBUTIONS HEALTH BENEFITS**  
**AS REPORTED BY THE CITY OF EDINBURG, WHICH INCLUDES THE EEDC**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Actuarially determined contribution	\$ 607,647
Contributions in relation to the actuarially determined contribution	607,647
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 29,675,741
Contributions as a percentage of covered employee payroll	2.05%

**Notes to Schedule of Contributions**

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**Valuation Date Notes:**

October 1, 2018; liabilities as of September 30, 2018 are based on October 1, 2018 valuation with no adjustment. Liabilities as of September 30, 2017 are based on October 1, 2018 actuarially rolled-back on a "no gain/loss basis"

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

Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Discount Rate:	
	Prior Measurement Date 3.63%
	Measurement Date 4.18%

Mortality Table RP-2014 Total Dataset Mortality Table fully generational using MP-2018 mortality improvement scale.

Health Care Cost Trends 5.50% from 2018 to 2019 decreasing to an ultimate rate of 3.85% by 2075

**Other Information:**

Notes There were no benefit changes during the year.

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**SCHEDULE OF CHANGES IN THE TOTAL OPEB DEATH BENEFITS LIABILITY**  
**AS REPORTED BY THE CITY OF EDINBURG, WHICH INCLUDES THE EEDC**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<b>Total OPEB Liability</b>	
Service Cost	\$ 51,444
Interest	45,625
Change of assumptions	125,031
Benefit payments, including refunds of employee contributions	(10,289)
<b>Net Changes</b>	<u>211,811</u>
<b>Total OPEB Liability - beginning of year</b>	<u>1,186,421</u>
<b>Total OPEB Liability - end of year</b>	<u><u>\$ 1,398,232</u></u>
Covered employee payroll	\$ 34,296,282
City's Net Pension Liability as a Percentage of covered employee payroll	4.08%

**Summary of Actuarial Assumptions**

Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Discount rate	3.31%
Retiree's share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	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.
Mortality rates - disabled retirees	RP 2000 Combined Mortality Table with Blue Collar 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.

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## **COMBINING SCHEDULES**

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2018**

	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and investments	\$ 25,746	\$ 10,607	\$ 36,353
Total assets	<u>\$ 25,746</u>	<u>\$ 10,607</u>	<u>\$ 36,353</u>
 Fund balances:			
Restricted for debt service	\$ 25,746	\$ -	\$ 25,746
Restricted for capital projects	<u>-</u>	<u>10,607</u>	<u>10,607</u>
Total fund balances	<u>25,746</u>	<u>10,607</u>	<u>36,353</u>
 Total liabilities, deferred inflows and fund balances	<u>\$ 25,746</u>	<u>\$ 10,607</u>	<u>\$ 36,353</u>

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## **FEDERAL SECTION**

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# Cascos & Associates, PC

Certified Public Accountants

Audit/Accounting/Tax/Consulting

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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 President and Board of Directors of the  
Edinburg Economic Development Corporation  
Edinburg, Texas

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Edinburg Economic Development Corporation, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Edinburg Economic Development Corporation's basic financial statements, and have issued our report thereon dated April 29, 2019.

### *Internal Control over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Edinburg Economic Development Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Edinburg Economic Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Edinburg Economic Development Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Edinburg Economic Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***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.

*Chant Associates, PC*

Brownsville, Texas  
April 29, 2019



**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**

**SCHEDULE OF AUDIT FINDINGS**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

None.

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**EDINBURG ECONOMIC DEVELOPMENT CORPORATION**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

**Item 2017-1:**

The EEDC approved the Refunding Bonds – Series 2015 for the refunding of the Bank Loans and Comptroller of Texas Loans. The Refunding Series established the Reserve Funds to be maintained and utilized under specific and approved conditions and circumstances.

**Status:**

Resolved.

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