
**DEVELOPMENT CORPORATION
OF MERCEDES**

**AUDITED ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2025**

ADRIAN WEBB, CPA

Edinburg, Texas

ADRIAN WEBB

Certified Public Accountant

Edinburg, Texas

INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Development Corporation of Mercedes, a component unit of the City of Mercedes, Texas, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Development Corporation of Mercedes' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, of the Development Corporation of Mercedes, a component unit of the City of Mercedes, as of September 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Development Corporation of Mercedes' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Development Corporation of Mercedes' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules, notes to required supplementary information, schedule of changes in net pension liability and related ratios - Texas Municipal Retirement System, schedule of contributions for Texas Municipal Retirement System - Pension Plan, and schedule of changes in total OPEB liability and related ratios - Texas Municipal Retirement System, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information mentioned above because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2026, on our consideration of the Development Corporation of Mercedes' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Development Corporation of City of Mercedes' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Development Corporation of Mercedes' internal control over financial reporting and compliance.

Regards,

Adrian Webb, CPA

ADRIAN WEBB, CPA
Edinburg, Texas
January 27, 2026

**Development Corporation of Mercedes
Management's Discussion and Analysis
For Year Ended September 30, 2025**

As management of the Development Corporation of Mercedes (DCM), we offer readers of the DCM's financial statements this narrative overview of the financial activities for the fiscal year ended September 30, 2025. We encourage readers to consider the information presented here in conjunction with the financial statements which begin on page 11.

- Total government-wide net position increased by \$1,450,520 as a result of this year's operations.
- Total assets and deferred outflows exceeded liabilities and deferred inflows at the close of the year by \$6,265,042.
- Total revenues in aggregate in the governmental activities decreased from \$2,548,085 to \$2,397,038 in the current fiscal year, a decrease of \$151,047 from the previous fiscal year.
- Total expenditures in aggregate in the governmental activities decreased from \$1,258,851 in the previous year to \$946,519 in the current year, a decrease of \$312,332 from the previous year.
- At the end of the current year, DCM's governmental funds reported an ending fund balance of \$7,446,344, out of which \$1,119,309 is unassigned fund balance from the general fund (available for spending at the government's discretion).

Overview of the Financial Statements

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

Government-wide Financial Analysis

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

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

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

**Development Corporation of Mercedes
Management's Discussion and Analysis
For Year Ended September 30, 2025**

Both government-wide financial statements present governmental activities of DCM that are principally supported by sales tax revenue. The government-wide financial statements can be found on pages 11-12.

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 17 of this report.

Required Supplementary Information

A budgetary comparison for the General Fund is provided as Required Supplementary Information (RSI) as well as the schedule of changes in net pension liability and related ratios - Texas Municipal Retirement System, schedule of contributions for Texas Municipal Retirement System - Pension Plan, and schedule of changes in total OPEB liability and related ratios - Texas Municipal Retirement System.

**Development Corporation of Mercedes
Management's Discussion and Analysis
For Year Ended September 30, 2025**

Government-Wide Financial Analysis

Net position serves over time as a useful indicator of a government's financial position. In the case of DCM, total assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$6,265,042 at the close of the fiscal year; an increase of \$1,450,520, when compared to the prior year. Total net position is made up of restricted and unrestricted fund balances, which, at the end of the year, totaled \$2,623,118, and \$3,641,923, respectively.

Development Corporation of Mercedes
Statement of Net Position
As of September 30,

	Governmental Activities	
	2025	2024
Current and other assets	\$ 7,638,020	\$ 7,359,924
Deferred Outflows of Resources	35,657	20,020
Total assets and deferred outflows of resources	7,673,677	7,379,944
Current and other liabilities	584,201	1,106,387
Long-term liabilities	790,539	1,413,680
Deferred Inflows of Resources	33,895	45,355
Net Position		
Restricted	2,623,118	1,353,271
Unrestricted	3,641,923	3,461,251
Total Net Position	6,265,042	4,814,522
Total liabilities, deferred inflows of resources, and net position	\$ 7,673,677	\$ 7,379,944

**Development Corporation of Mercedes
Management's Discussion and Analysis
For Year Ended September 30, 2025**

Analysis of Changes in Net Position

Governmental Activities

During the current fiscal year, net position for governmental activities increased by \$1,450,520.

The following table summarizes the changes in the DCM's net position from governmental activities for the fiscal year ended September 30, 2025, and 2024:

Development Corporation of Mercedes		Change in Net Position	
For the Year Ended September 30,		Governmental Activities	
	2025	2024	
Revenues:			
Sales Tax	\$ 2,314,497	\$ 2,336,935	
Investment earnings	55,979	60,316	
Intergovernmental Revenue	26,562	150,834	
Total Revenues	2,397,038	2,548,085	
Expenses:			
General Government	602,994	547,036	
Economic Development and Assistance	311,047	661,565	
Interest on debt	32,478	50,250	
Total Expenses	946,519	1,258,851	
Change in Net Position	1,450,520	1,289,234	
Net Position - Beginning	4,814,522	3,525,288	
Net Position - Ending	\$ 6,265,042	\$ 4,814,522	

Total revenues generated from governmental activities for this year were \$2,397,038 reflecting a \$151,047 decrease compared to the previous year. This decrease is primarily due to a decrease in other sources of income totaling \$26,562. Overall expenses decreased by \$312,332.

**Development Corporation of Mercedes
Management’s Discussion and Analysis
For Year Ended September 30, 2025**

Financial Analysis of the Development Corporation of Mercedes Funds

Financial Analysis of the Government’s Funds

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

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

At the end of the current fiscal year, DCM governmental funds reported a combined ending fund balance of \$7,446,344, an increase of \$416,604 in comparison with the prior year. Overall, the non-spendable, restricted, and unassigned fund balances of the general fund totaled \$6,027,599.

Revenues

The following table presents a summary of revenues for the governmental funds for the fiscal years ended September 30, 2025, and 2024:

Revenues	9/30/2025		9/30/2024		Amount	
		% of Total		% of Total	Increase / (Decrease)	% Increase / (Decrease)
Sales Tax	\$ 2,314,497	96.56%	\$ 2,336,935	91.71%	\$ (22,438)	-0.96%
Intergovernmental Revenue	26,562	1.11%	150,834	5.92%	(124,272)	100.00%
Investment Earnings	55,979	2.34%	60,316	2.37%	(4,337)	-7.19%
Total Revenues	\$ 2,397,038	100.00%	\$ 2,548,085	100.00%	\$ (151,047)	91.85%

Expenditures

The following table presents a summary of General fund, RBEG fund, and IRP fund expenditures for the fiscal years ended September 30, 2025, and 2024:

Expenditures	9/30/2025		9/30/2024		Amount	
		% of Total		% of Total	Increase/ (Decrease)	% Increase/ (Decrease)
General Government	\$ 602,994	63.71%	\$ 547,036	43.46%	\$ 55,958	10.23%
Economic Development and Assistance	311,047	32.86%	661,565	52.55%	(350,518)	-52.98%
Interest on Debt	32,478	3.43%	50,250	3.99%	(17,772)	-35.37%
Total Expenditures	\$ 946,519	100.00%	\$ 1,258,851	100.00%	\$ (312,332)	-78.12%

The decrease in expenditures for DCM in the year ending September 30, 2025, is mainly due to a decrease of expenditures for economic development and assistance.

**Development Corporation of Mercedes
Management's Discussion and Analysis
For Year Ended September 30, 2025**

Budgetary Highlights

DCM adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with these budgets. Detail budgetary comparisons are included in the supplementary information on page 42.

General Fund

When comparing the original and amended budget, revenues were amended to decrease the original budget from \$2,382,483 to \$2,263,359 primarily to decrease the original budget for sales tax by \$119,104. Total expenditures were amended to increase the original budget from \$3,462,195 to \$3,343,071 primarily to decrease the budget for economic development services. As of year-end, total actual revenues exceeded the amended budget by \$235,979. Total actual expenditures were below the amended budget by \$1,283,266 due to decreases in the General Government and Economic Development and Assistance expenditures.

IRP Loan Fund

No budget is required to be set up for the IRP Loan fund.

RBEG Grant Fund

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

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2025, DCM's capital assets, net of accumulated depreciation, for governmental activities was \$3,396, which consisted of Right-to-Use Assets. Additional information on DCM's capital assets can be found in Note 7 - Capital Assets.

Long-term Debt Obligations

As of September 30, 2025, DCM's long-term debt consisted of bonds, notes, and leases payable, and a settlement payable. Proceeds from long-term debt issued in prior years have been used to purchase redevelopment assets in years prior to fiscal year 2021. Additional information on DCM's long-term debt can be found in Note 9 - Long-Term Debt Obligations.

**Development Corporation of Mercedes
Management's Discussion and Analysis
For Year Ended September 30, 2025**

Economic Factors and Net Year's Budgets and Rates

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

According to the Texas Labor Market Review, the unemployment rate for Hidalgo County as of November 2025 was 6.3 percent, which represents an increase of 2.1 percent from the prior year.

The current year's General Fund budget was adopted on a basis consistent with generally accepted accounting principles.

Request for Information

This financial report is designed to provide a general overview of the Development Corporation of Mercedes; finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Development Corporation of Mercedes: 320 S. Ohio Avenue, Mercedes, Texas, 78570, Melissa Ramirez, Executive Director.

Development Corporation of Mercedes
Statement of Net Position
September 30, 2025

	Primary Government Governmental Activities
ASSETS:	
Current Assets:	
1010 Cash and Cash Equivalents	\$ 618,582
Receivables (Net of Allowance for Uncollectible):	
1050 Sales Taxes Receivable	353,933
1260 Due From City of Mercedes	335,074
Restricted Assets:	
1611 Restricted Cash and Cash Equivalents	834,656
1617 Restricted Notes Receivable, Net	1,788,462
Total Current Assets	3,930,706
Noncurrent Assets:	
Capital Assets	
1792 Capital Assets Being Depreciated	20,802
1780 Accumulated Depreciation	(17,406)
Total Capital Assets	3,396
Total Noncurrent Assets	3,396
Other Assets	
1990 Redevelopment Assets	3,703,917
Total Other Assets	3,703,917
TOTAL ASSETS	\$ 7,638,020
DEFERRED OUTFLOWS OF RESOURCES:	
1992 Related to Pension Plan	35,271
1993 Related to OPEB	386
TOTAL DEFERRED OUTFLOWS OF RESOURCES	35,657
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 7,673,677
LIABILITIES:	
Current Liabilities:	
2010 Accounts Payable	\$ 2,863
2020 Wages and Salaries Payable	12,861
2090 Due to City of Mercedes	78,805
2140 Accrued Interest	2,353
Total Current Liabilities	96,883
Noncurrent Liabilities:	
2507 Due Within One Year	487,318
2550 Due in More Than One Year	691,450
2580 Net Pension Liability	84,868
2585 Total OPEB Liability	14,221
Total Noncurrent Liabilities	1,277,857
TOTAL LIABILITIES	1,374,740
DEFERRED INFLOWS OF RESOURCES:	
2602 Related to Pension Plan	30,498
2603 Related to OPEB	3,397
TOTAL DEFERRED INFLOWS OF RESOURCES	33,895
NET POSITION:	
4001 Restricted	2,623,118
3890 Unrestricted	3,641,923
TOTAL NET POSITION	6,265,042
TOTAL LIABILITIES, DEFERRED INFLOWS, & NET POSITION	\$ 7,673,677

Development Corporation of Mercedes
 Statement of Activities
 For the Year Ended September 30, 2025

	Expenses	Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 602,994	\$ (602,994)
Economic Development and Assistance	311,047	(311,047)
Interest on Debt	32,478	(32,478)
Total Governmental Activities	<u>946,519</u>	<u>(946,519)</u>
General Revenues		
General Sales and Use Taxes		2,314,497
Contributions from City of Mercedes		26,562
Investment Earnings		55,979
Total General Revenues		<u>2,397,038</u>
Change in Net Position		1,450,520
Net Position - Beginning		<u>\$ 4,814,522</u>
Net Position - Ending		<u><u>\$ 6,265,042</u></u>

Development Corporation of Mercedes
Balance Sheet - Governmental Funds
September 30, 2025

	Major Governmental Funds			Governmental Funds
	General Fund	IRP Loan Fund	RBEG Grant Fund	
ASSETS:				
1010 Cash and Cash Equivalents	\$ 618,582	\$ -	\$ -	\$ 618,582
1050 Sales Taxes Receivable	353,933	-	-	353,933
1260 Due From City of Mercedes	241,324	-	-	241,324
1300 Due from Other Funds	1,693	-	-	1,693
Restricted and Non-Spendable Assets:				
1611 Restricted Cash and Cash Equivalents	272,169	303,941	258,547	834,656
1617 Restricted Notes Receivable, Net	1,076,328	125,207	586,927	1,788,462
1990 Redevelopment Assets	3,558,100	-	145,817	3,703,917
TOTAL ASSETS	\$ 6,122,128	\$ 429,148	\$ 991,291	\$ 7,542,567
LIABILITIES:				
2010 Accounts Payable	2,863	-	-	2,863
2020 Wages and Salaries Payable	12,861	-	-	12,861
2080 Due to Other Funds	-	1,693	-	1,693
2090 Due to City of Mercedes	78,805	-	-	78,805
TOTAL LIABILITIES	94,530	1,693	-	96,223
FUND BALANCES:				
Non-spendable for:				
3002 Non-Spendable	3,558,100	-	145,817	3,703,917
Restricted for:				
3425 Restricted	1,350,190	427,455	845,474	2,623,118
Unassigned for:				
3600 Unassigned	1,119,309	-	-	1,119,309
TOTAL FUND BALANCES	6,027,599	427,455	991,291	7,446,344
TOTAL LIABILITIES, DEFERRED INFLOWS & FUND BALANCES	\$ 6,122,128	\$ 429,148	\$ 991,291	\$ 7,542,567

Development Corporation of Mercedes
 Reconciliation of the Balance Sheet - Governmental to the Governmental Activities - Statement of Net Position
 September 30, 2025

Total Fund Balances - Governmental Funds	\$	7,446,344
<p>Amounts Reported for governmental activities in the statement of net position are different because:</p>		
<p>Long-term receivable due from the City of Mercedes is not available to pay current expenditures in the funds.</p>		
Notes Receivable	<u>93,750</u>	93,750
<p>Capital assets used in governmental activities are not financial resources, and therefore are not reported in governmental funds:</p>		
Capital Assets Being Depreciated	20,802	
Accumulated Depreciation	<u>(17,406)</u>	
Total Capital Assets, Net		3,396
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities at the fund level.</p>		
Debt Service - Due Within One Year	(487,318)	
Debt Service - Due in More Than One Year	<u>(691,450)</u>	
Total Long-Term Liabilities		(1,178,768)
<p>Interest on long-term debt is not accrued in the governmental funds, but is recognized as an expenditure in the funds.</p>		
Accrued Interest Payable	<u>(2,353)</u>	
Total Accrued Interest Payable		(2,353)
<p>Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB Statement No. 68, a deferred resource outflow and a deferred resource inflow. This resulted in a decrease in net position.</p>		
Net Pension Liability	(84,868)	
Deferred Outflow related to Pension Plan	35,271	
Deferred Inflow related to Pension Plan	<u>(30,498)</u>	
		(80,095)
<p>Included in the noncurrent liabilities is the recognition of the City's net OPEB liability required by GASB Statement No. 75, a deferred resource outflow and a deferred resource inflow. This resulted in a decrease in net position.</p>		
Net OPEB Liability	(14,221)	
Deferred Outflow related to OPEB	386	
Deferred Inflow related to OPEB	<u>(3,397)</u>	
		<u>(17,232)</u>
Net position of governmental activities	\$	<u>6,265,042</u>

Development Corporation of Mercedes
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
For The Year Ended September 30, 2025

		<u>Major Governmental Funds</u>			
		General Fund	IRP Loan Fund	RBEG Grant Fund	Total Governmental Funds
REVENUES:					
5120	General Sales and Use Taxes	\$ 2,314,497	\$ -	\$ -	\$ 2,314,497
5301	Intergovernmental Revenue	151,562	-	-	151,562
5610	Investment Earnings	33,277	6,129	16,573	55,979
	Total Revenues	<u>2,499,337</u>	<u>6,129</u>	<u>16,573</u>	<u>2,522,038</u>
EXPENDITURES:					
Current:					
100	General Government	606,534	-	-	606,534
650	Economic Development and Assistance	297,996	271	14,509	312,777
Debt Service:					
710	Principal on Debt	1,126,532	26,074	-	1,152,606
720	Interest on Debt	28,743	4,774	-	33,517
	Total Expenditures	<u>2,059,805</u>	<u>31,119</u>	<u>14,509</u>	<u>2,105,434</u>
	Excess(Deficiency) of Revenues Over(Under) Expenditures	439,531	(24,990)	2,063	416,604
OTHER FINANCING SOURCES (USES):					
	Total Other Financing Sources (Uses)	-	-	-	-
	Net Change in Fund Balances	439,531	(24,990)	2,063	416,604
3600	Fund Balance - Beginning	\$ 5,588,067	\$ 452,445	\$ 989,227	\$ 7,029,739
3900	Fund Balance - Ending	<u>\$ 6,027,599</u>	<u>\$ 427,455</u>	<u>\$ 991,291</u>	<u>\$ 7,446,344</u>

Development Corporation of Mercedes
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to the
Governmental Activities - Statement of Activities
For the Year Ended September 30, 2025

Total Net Change in Fund Balances - Governmental Funds	\$	416,604
<p>Current year capital outlay and depreciation expense are expenditures in the fund financial statements, but they should be shown as increases (decreases) in capital assets to increase (decrease) the change in net position.</p>		
Depreciation of Capital Assets	<u>(19,198)</u>	(19,198)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal Repayment	<u>1,152,606</u>	1,152,606
<p>Interest on long-term debt is not accrued in the governmental funds, but it is recognized as an expenditure at the fund level.</p>		
Interest Expense	<u>1,039</u>	1,039
<p>Long-term receivable due from the City of Mercedes is not available to pay current expenditures in the funds.</p>		
VTX Note Receivable	<u>(125,000)</u>	(125,000)
<p>GASB 68 requires certain plan expenditures to be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net pension liability. Finally, the proportionate share of pension expense on the plan as a whole has to be recorded.</p>		
Change in Net Pension Liability	2,104	
Deferred Outflow related to Pension Plan	15,428	
Deferred Inflow related to Pension Plan	<u>12,311</u>	29,843
<p>GASB 75 requires certain plan expenditures to be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net OPEB liability. Finally, the proportionate share of OPEB expense on the plan as a whole has to be recorded.</p>		
Change in Net OPEB Liability	(4,733)	
Deferred Outflow related to OPEB	209	
Deferred Inflow related to OPEB	<u>(850)</u>	(5,374)
Change in Net Position of Governmental Activities	\$	1,450,520

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 1. Description of the Entity

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

Note 2. Summary of Significant Accounting Policies

Reporting Entity

DCM is a component unit of the City of Mercedes, Texas (the City). The City, the primary government, appoints DCM's board of directors, is authorized to negotiate the issuance of bonds which are payable solely from the revenues of DCM, and is not liable for the payment of any obligations or agreements created or incurred by the DCM. Therefore, the accompanying financial statements are not intended to present fairly the financial position, results of operation and cash flows of the City of Mercedes. These financial statements are included in the annual financial report of the City as a discretely presented component unit because exclusion of these financial statements would cause the primary government's financial statements to be misleading or incomplete.

Government-wide and Fund Financial Statements

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

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

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

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 2. Summary of Significant Accounting Policies – Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 2. Summary of Significant Accounting Policies – Continued

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

Fund Financial Statements

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

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

DCM's financial statements report the following major governmental funds:

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

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

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

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

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

**Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025**

Note 2. Summary of Significant Accounting Policies – Continued

Budgetary Information

Budgetary Basis of Accounting

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

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

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

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

Compliance and Accountability

Finance Related Legal Contractual Provisions

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

Excess of expenditures over appropriations

As of September 30, 2025, expenditures did not exceed appropriations.

Deficit Fund Balance or Fund Net position of Individual Funds

The DCM does not have funds with a deficit fund balance at year-end.

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 2. Summary of Significant Accounting Policies – Continued

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

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

Redevelopment Assets

Redevelopment assets are assets that, after purchase, are not used in operations, are not depreciated, and are expected to be disposed of by sale transaction. Redevelopment assets are reported as of net realizable value. As of September 30, 2025, DCM's redevelopment assets include land and buildings totaling \$3,703,917.

Development Corporation of Mercedes
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Notes to Financial Statements
For the Year Ended September 30, 2025

Note 2. Summary of Significant Accounting Policies – Continued

Interfund Activities and Transactions

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

Prepaid Items

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

Capital Assets

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

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

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

<u>Asset Description</u>	<u>Useful Life</u>
Furniture and Equipment	7-15 years
Right-of-Use Assets	Term of Lease

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 2. Summary of Significant Accounting Policies – Continued

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position will sometimes report a separate section for deferred outflows and inflows of resources. *Deferred outflows or resources* represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. *Deferred Inflows of resources* represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. DCM reports deferred outflows and inflows of resources related to pensions and OPEB as further described in Notes 10 and 11.

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

Long-Term Obligations

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

Bond premiums and discounts, as well as insurance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. In accordance with GASB Statement No. 65: *Items Previously Reported as Assets and Liabilities*, bond issuance costs are expenses in the period incurred except for prepaid insurance costs.

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

Restricted Assets

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

Rounding Adjustments

Throughout this report, dollar amounts are rounded, which can occasionally create differences between the detail and the total amounts.

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 2. Summary of Significant Accounting Policies – Continued

Pensions

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

Other Post-Employment Benefits (OPEB) Liability

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Information included in this report is the DCM allocated portion based on contribution percentage out of the City's total OPEB liability related to the TMRS Supplemental Death Benefit through a report prepared by TMRS consulting actuary, Gabriel Roder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Categories and Classification of Fund Equity

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

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

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

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

Development Corporation of Mercedes
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Notes to Financial Statements
For the Year Ended September 30, 2025

Note 2. Summary of Significant Accounting Policies – Continued

Assigned fund balance – amounts in the assigned fund balance classification are intended to be used by the DCM for specific purposes but do not meet the criteria to be classified as committed. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to remove it or revise a commitment. As of September 30, 2025, DCM did not have an assigned fund balance.

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

Revenues and Expenditures/Expenses

Program Revenues – Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. DCM did not have any program revenues.

All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Use of Estimates

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

Fair Value Measurements

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

Leases

Lease contracts that provide the DCM with control of a non-financial asset, such as land, buildings or equipment, for a period of time in excess of twelve months are reported as a right-to-use lease asset with a related lease liability. The lease liability is recorded at the present value of future lease payments, including fixed payments, variable payments based on an index or fixed rate and reasonably certain residual guarantees. The intangible right-to-use lease asset is recorded for the same amount as the related lease liability plus any prepayments and initial direct costs to place the asset in service. Right-to-use lease assets are amortized over the shorter of the useful life of the asset or the lease term. The lease liability is reduced for lease payments made, less the interest portion of the lease payment.

**Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025**

Note 2. Summary of Significant Accounting Policies – Continued

Subscription-Based Information Technology Arrangements

The DCM evaluated agreements for software and software subscriptions to determine whether they meet the definition of a SBITA as defined in GASB No. 96.

New Accounting Pronouncements

Statement No. 101, *Compensated Absences*, the objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. This Statement has been implemented as reflected in the financial statements as of September 30, 2025.

Statement No. 102, *Certain Risk Disclosures*, the objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. This Statement has been implemented as reflected in the financial statements as of September 30, 2025.

Future accounting standards which may possibly be applicable to the DCM in future years that have been issued by the Governmental Accounting Standards Board are:

- Statement No. 103, *Financial Reporting Model*
- Statement No. 104, *Disclosure of Certain Capital Assets*
- Statement No. 105, *Subsequent Events*

Note 3. Deposits and Investments

It is a policy of DCM as well as a requirement in its Depository Agreement for deposits plus accrued interest thereon to be 102% secured collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation Insurance (FDIC). As of year-end, the carrying amount of the DCM’s deposits (cash and restricted cash) was \$906,434, and the bank balance was \$914,871.

A breakdown of DCM’s deposits as of September 30, 2025, are as follows:

Description	Amount
Cash	\$ 424,108
Cash - Restricted	482,326
Texas CLASS	194,474
Texas CLASS - Restricted	352,331
Total Cash, Cash Equivalents, and Restricted Cash	\$ 1,453,238

Development Corporation of Mercedes
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Notes to Financial Statements
For the Year Ended September 30, 2025

Note 3. Deposits and Investments – Continued

Of the total deposits held by financial institutions, \$834,656 is considered to be restricted.

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

The State of Texas’s Public Funds Investment Act (PFIA) (Gov’t Code title 10, subtitle F, chapter 2256) requires an annual audit of investment practices. Audit procedures in this area are conducted as part of the audit of the basic financial statements disclosed in the areas of investment practices, management reports, and establishment of appropriate policies; DCM reports its information to the City of Mercedes Council. Additionally, investment practices of DCM were in accordance with local policies. DCM’s management believes that it complies with the requirements of the PFIA and its adopted investment policies.

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

As of September 30, 2025, DCM’s deposits and investment balances were fully insured or collateralized as required by state statutes.

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

Note 4. Sales Tax Receivable

The City of Mercedes is the recipient of all Sales Taxes from the State Comptrollers for which the DCM is due 25% of all Sales Taxes due to the City of Mercedes. As of September 30, 2025, DCM had a balance of \$353,933.

Development Corporation of Mercedes
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Notes to Financial Statements
For the Year Ended September 30, 2025

Note 5. Related Party Receivables

Valley Telephone Cooperative

On March 1, 2016, DCM established a resolution with the City of Mercedes to fund debt service requirement obligations by 50% payable to Valley Telephone Cooperative. The City makes monthly payments to DCM in the amount of \$10,417 to make the principal payments to Valley Telephone Cooperative. The outstanding balance due from the City as of September 30, 2025, was \$93,750. Refer to *Note 9 Long-term Obligations – Notes Payable* for more information.

VTX Note

The DCM and the City of Mercedes reached a resolution in regard to proceeds earned by the City for sale of property to which DCM had liens to. The amount still due to DCM by the City of Mercedes has a remaining balance of \$335,074 as of September 30, 2025.

Related Party Receivables as September 30, 2025, consist of the following:

Description	Amount
Valley Telephone Cooperative	\$ 93,750
VTX Note	241,324
Total Related Party Receivables	\$ 335,074

Note 6. Notes Receivable

As an inducement to expand economic business operations in the City of Mercedes, Texas, DCM accepted notes from various businesses. These notes are for cash loans that carry various interest rates and terms. The interest rates vary by individual entity and are based on individual creditworthiness.

Notes Receivable as of September 30, 2025, consist of the following:

Description	Fund Name	Amount
MD International (Orb-Galvan)	General	\$ 76,328
MD International (Galvan)	IRP Loan	74,259
First National Bank (Gomez)	IRP Loan	14,927
Mario and Martha Castaneda	IRP Loan	36,021
Shops at Mercedes	IRP Loan	1,000,000
De La Garza Bakery	RBEG Grant	36,390
MD International	RBEG Grant	33,844
First National Bank (Gomez)	RBEG Grant	24,013
Rene Moreno	RBEG Grant	24,514
The Grind	RBEG Grant	25,482
Valor Fitness LLC	RBEG Grant	29,674
NTM Ventures LLC	RBEG Grant	58,373
Martha Carrillo	RBEG Grant	67,149
Ashley R. Gonzalez	RBEG Grant	35,756
Project Valdemar	RBEG Grant	38,063
R. Garza	RBEG Grant	37,577
Project Cruz	RBEG Grant	65,793
Columbus Club	RBEG Grant	138,627
Total Notes Receivable		1,816,788
Less: Allowance for Uncollectible		(28,327)
Total Notes Receivable, Net		\$ 1,788,462

Development Corporation of Mercedes
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Notes to Financial Statements
For the Year Ended September 30, 2025

Note 6. Notes Receivable – Continued

DCM and the City of Mercedes entered into an agreement and have issued a \$2,000,000, split between the two, note to the Shops at Mercedes, Ltd. in April 2025. The note is fully forgivable and will be used to fund a construction project, whereas forgiveness is conditioned on timely completion of Phase 1 of the project prior to December 2026. Failure to meet the conditions initiates immediate repayment of the principal plus interest at the contractual default rate.

Note 7. Capital Assets

DCM’s capital asset balances as of September 30, 2025, are summarized by the following table:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets Being Depreciated				
Furniture and Equipment	\$ 11,885	\$ -	\$ -	\$ 11,885
Right-to-Use Assets	43,290	-	(34,373)	8,917
Total Capital Assets Being Depreciated	55,175	-	(34,373)	20,802
Less: Accumulated Depreciation	(32,581)	(19,198)	34,373	(17,406)
Capital Assets Being Depreciated, Net	\$ 22,594	\$ (19,198)	\$ -	\$ 3,396

Depreciation expense of \$19,198 was incurred as of September 30, 2025.

Note 8. Current Liabilities

As of September 30, 2025, DCM had the following balances for Current Liabilities as summarized by the following table:

<u>Description</u>	<u>Amount</u>
Accounts Payable	\$ 2,863
Wages and Salaries Payable	12,861
Accrued Interest	2,353
Due to Related Parties	78,805
Total Current Liabilities	\$ 96,883

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 9. Long-Term Debt Obligations

Long-Term Debt Obligation balances consisted of the following as of September 30, 2025:

Description	Amount
<i>Bonds Payable</i>	
On August 15, 2009, DCM issued sales tax revenue bond series 2007, due in annual installments not exceeding \$265,000, beginning August 15, 2009, through August 15, 2027. The interest rate is fixed at 4.550%. The bond is secured by sales tax revenue.	\$ 520,000
<i>Notes Payable</i>	
On February 16, 2011, DCM borrowed \$750,000 payable to the USDA. The terms of the note include annual principal and interest payments of \$30,848 commencing October 1, 2015, and continue until February 16, 2041, when the entire balance, including principal and interest will be due and payable. Interest rate is fixed at 1%. The note is secured by funds placed in IRP revolving fund and various collateral obtained as a result of lending activity.	451,361
On January 5, 2015, DCM borrowed \$1,075,000 payable to the Office of the Governor Economic Development and Tourism Division. The terms of the note include monthly principal and interest payments of \$10,530 which commenced on March 1, 2015, and continue until February 1, 2025, when the entire balance, including principal and interest, will be due and payable. Interest rate is variable (between 3.25% and 5%). The note is secured by a lien on a security interest in sales tax revenue.	-
On March 1, 2016, DCM borrowed \$2,000,000 payable to Valley Telephone Cooperative. The terms of the note include monthly principal payments of \$20,833 which began on February 17, 2016, until March 1, 2026. The note is secured by sales tax revenue and is used to purchase redevelopment assets to further economic objectives.	187,500
<i>Settlement Payable</i>	
On November 20, 2018, the City of Mercedes approved Resolution No. 2018-13, which is a resolution established for the DCM and the City to each pay a portion of a settlement resulting from a prior year agreement with a developer. The DCM portion of the settlement was \$2,195,882. Annual requirements to pay off the settlement payable are for a period of 10 years and are based on sales tax collections received from the Texas Comptroller. The amount due in one year for the settlement payable is based on management's estimate of anticipated eligible sales tax collections.	16,635
<i>Leases Payable</i>	
DCM entered into an agreement with the Mercedes Area Chamber of Commerce to lease an office building. The terms of the lease include monthly base payments of \$1,500, to be payable on the 1st day of each month during the term. The lease agreement will be for the term beginning April 1, 2023 and ending March 31, 2025.	-
On July 25, 2022, DCM entered into an agreement with De Lage Landen Financial Services, Inc. to lease various office equipment and accessories. The terms of the lease include monthly payments of \$160, and the lease term will be for 63 months from date the lease agreement was signed.	3,272
Total Long-Term Debt Obligations	\$ 1,178,768

Development Corporation of Mercedes
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Notes to Financial Statements
For the Year Ended September 30, 2025

Note 9. Long-Term Debt Obligations – Continued

Long-Term Debt Obligations consisted of the following as of September 30, 2025:

Description	Interest Rate	Original Issue Amount	Maturity Date	Beginning Balance	Increase	Decrease	Ending Balance	Due in One Year
Bonds Payable								
Series 2007, Sales Tax Revenue Bond	4.55%	\$ 3,500,000	8/15/2027	\$ 765,000	\$ -	\$ (245,000)	\$ 520,000	\$ 255,000
Total Bonds Payable		3,500,000		765,000	-	(245,000)	520,000	255,000
Notes Payable								
US Department of Agriculture	1.00%	750,000	2/16/2041	477,435	-	(26,074)	451,361	26,334
Office of the Governor	3.25-5.0%	1,075,000	2/1/2025	56,202	-	(56,202)	-	-
Valley Telephone Cooperative	Varies	2,000,000	3/1/2026	437,500	-	(250,000)	187,500	187,500
Total Notes Payable		3,825,000		971,137	-	(332,276)	638,861	213,834
Leases Payable								
Building	3.00%	34,997	3/1/2025	8,945	-	(8,945)	-	-
Office Equipment	3.00%	8,917	6/30/2027	5,068	-	(1,795)	3,272	1,849
Total Leases Payable		43,914		14,012	-	(10,740)	3,272	1,849
Total Bonds, Notes, and Leases Payable				1,750,149	-	(588,016)	1,162,133	470,683
Other Debt Obligations								
Settlement Payable	Varies	2,195,882	11/20/2028	581,225	-	(564,590)	16,635	16,635
Total Other Debt Obligations		2,195,882		581,225	-	(564,590)	16,635	16,635
Total Component Unit Activities		\$ 9,564,796		\$ 2,331,374	\$ -	\$ (1,152,606)	\$ 1,178,768	\$ 487,318

Long-Term Debt Yearly Obligations consisted of the following as of September 30, 2025:

Year Ended September 30,	Bonds, Notes, and Leases Payable		
	Principal	Interest	Total Requirements
2026	\$ 470,684	\$ 28,241	\$ 498,924
2027	293,021	16,322	309,343
2028	26,864	3,984	30,848
2029	27,132	3,716	30,848
2030	27,404	3,444	30,848
2031-2035	141,184	13,056	154,240
2036-2040	148,386	11,644	160,030
2041-2045	27,459	10,218	37,677
Total	1,162,133	90,625	1,252,758
Current portion	(470,684)	(28,241)	(498,924)
Total Long-Term	\$ 691,450	\$ 62,384	\$ 753,834

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 9. Long-Term Debt Obligations – Continued

Long-term Debt Yearly Obligations related to bonds payable, consisted of the following as of September 30, 2025:

Year Ended September 30,	Bonds Payable		Total Requirements
	Principal	Interest	
2026	\$ 255,000	\$ 23,660	\$ 278,660
2027	265,000	12,058	277,058
Total	520,000	35,718	555,718
Current portion	(255,000)	23,660	278,660
Total Long-Term	\$ 265,000	\$ 59,378	\$ 834,378

Long-term Debt Yearly Obligations related to notes payable, consisted of the following as of September 30, 2025:

Year Ended September 30,	Notes Payable		Total Requirements
	Principal	Interest	
2026	\$ 213,834	\$ 4,514	\$ 218,348
2027	26,598	4,250	30,848
2028	26,864	3,984	30,848
2029	27,132	3,716	30,848
2030	27,404	3,444	30,848
2031-2035	141,184	13,056	154,240
2036-2040	148,386	11,644	160,030
2041-2045	27,459	10,218	37,677
Total	638,861	54,826	693,687
Current portion	(213,834)	(4,514)	(218,348)
Total Long-Term	\$ 425,026	\$ 50,312	\$ 475,339

Long-term Debt Yearly Obligations related to leases payable, consisted of the following as of September 30, 2025:

Year Ended September 30,	Leases Payable		Total Requirements
	Principal	Interest	
2026	1,849	67	1,916
2027	1,423	14	1,437
Total	3,272	81	3,353
Current Portion	(1,849)	(67)	(1,916)
Total Long-Term	\$ 1,423	\$ 14	\$ 1,437

**Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025**

Note 10. Defined Pension Plan

Description of Plan

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

TMRS places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with advice and consent of the senate, appoint the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' 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 that can be obtained at www.tmr.com.

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

At retirement, the benefits are calculated as if the sum of the employee's contributions, with interest, and the city-financing monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their 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

As of the December 31, 2024, valuation and measurement date, the following employees were covered by the benefit terms:

Description	Amount
Inactive employees or beneficiaries currently receiving benefits	98
Inactive employees entitled to but not yet receiving benefits	184
Active employees	139
Total participants	421

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

**Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025**

Note 10. Defined Pension Plan - Continued

Contributions

The contribution rate for employees in TMRS is 7% of employee gross earnings, and the city matching percentage is 200%, both 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 15.80% and 15.8% in fiscal year 2025 and 2024 respectively. The Cities actuarially determined contribution to TMRS for plan year ended December 31, 2024, were \$915,565, and were equal to TMRS retirement contributions.

Net Pension Liability

The City's Net Pension Liability was measured as of December 31, 2024, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

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	21 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Notes There were no benefit changes during the year.

**Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025**

Note 10. Defined Pension Plan – Continued

For the purpose of this valuation, the expected rate of return on pension plan investments is 6.75%; the municipal bond rate is 4.08% (based on the daily rate closest to but not later than the measurement date of the Bond Buyer 20-Bond GO Index). A single discount rate of 6.75% was used to measure the net pension liability as of December 31, 2024. This single discount rate was based on the expected rate of return on pension plan investments of 6.75%.

	1% Decrease 5.75%	Discount Rate 6.75%	1% Increase 7.75%
City's Net Pension Liability	\$ 5,889,448	\$ 1,953,495	\$ (1,243,044)

Based on the stated assumptions and the projection of cash flows, the City's fiduciary net position and future contributions were sufficient to finance the future benefit payments of the current plan members for all projection years. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for the City. The projection of cash flows used to determine the single discount rate for the City assumed that the funding policy adopted by the TMRS Board will remain in effect for all future years. Under this funding policy, the City will finance the unfunded actuarial accrued liability over the years remaining for the closed period existing for each base in addition to the employer portion of all future benefit accruals (i.e., the employer normal cost).

Discount Rate

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

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 10. Defined Pension Plan – Continued

Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/23	\$ 27,075,101	\$ 24,116,853	\$ 2,958,248
Changes for the year:			
Service cost	1,054,260		1,054,260
Interest	1,802,677		1,802,677
Difference between expected/actual experience	(42,548)		(42,548)
Changes of assumptions			-
Benefit payments, including refund of employee contributions	(1,791,802)	(1,791,802)	-
Contributions - employer		915,565	(915,565)
Contributions - employee		413,634	(413,634)
Net investment income		2,506,390	(2,506,390)
Administrative expenses		(16,071)	16,071
Other changes		(376)	376
Net change	1,022,587	2,027,340	(1,004,753)
Balance at 12/31/24	\$ 28,097,688	\$ 26,144,193	\$ 1,953,495

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Related to Pensions

For the year ended December 31, 2024, the City recognized pension expense in the amount of \$660,680.

As of September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience (Net of current year amortization)	\$ -	\$ 273,150
Change in actuarial assumptions	-	140,544
Differences between projected and actual investment earnings (Net of current year amortization)	-	288,299
Contributions subsequent to the measurement date	811,873	-
Total	\$ 811,873	\$ 701,993

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

\$811,873 is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to measurement date which will be recognized as a reduction of the net pension liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions expense as follows:

Year Ending December 31,	Amount
2025	\$ (172,850)
2026	204,351
2027	(386,614)
2028	(175,698)
2029	-
Thereafter	-
Total	\$ (530,811)

Note 11. Other Post Employment Benefits (OPEB)

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other post-employment benefit,” or OPEB. TMRS issues a public annual comprehensive financial report that can be obtained at www.tmr.com

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

Employees Covered by Benefit Terms

Description	Amount
Inactive employees or beneficiaries currently receiving benefits	66
Inactive employees entitled to but not yet receiving benefits	18
Active employees	139
Total participants	223

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

**Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025**

Note 11. Other Post Employment Benefits (OPEB) – Continued

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2024, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
Discount rate*	4.08%
Retirees' share of benefit related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Mortality rates – disabled retirees	2019Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

* The discount rate was based on the Bond Buyer “20-Bond GO Index” rate closest to, but not later than December 31, 2024.

Note: The actuarial assumptions used in the December 31, 2024, valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 11. Other Post Employment Benefits (OPEB) - Continued

Total OPEB Liability

Employees for the City of Mercedes were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the city were 0.14% and 0.14% in calendar 2024 and 2023 respectively. The City's contributions to TMRS for the year ended September 30, 2025, were \$7,958 and were equal to the required Contributions.

	Total OPEB Liability (a)
Balance at 12/31/23	\$ 322,706
Changes for the year:	
Service cost	14,724
Interest	12,277
Change in benefit terms	-
Difference between expected/actual experience	4,244
Changes of assumptions	(17,774)
Benefit payments, including refund of employee contributions	(8,835)
Net change	4,636
Balance at 12/31/24	\$ 327,342

Total OPEB allocation:

City of Mercedes	95.66%	\$	313,121
Development Corporation of Mercedes	4.34%	\$	14,221

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 4.08%, as well as what the City's total OPEB liability would have been if it were calculated using a discount rate that is 1 percentage point lower (3.08) or 1 Percentage higher (5.08) than the current rate.

	1% Decrease 3.08%	Current Discount Rate 4.08%	1% Increase 5.08%
Total OPEB Liability	\$ 390,405	\$ 327,342	\$ 277,962

Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025

Note 11. Other Post Employment Benefits (OPEB) - Continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2025, the City recognized OPEB expense in the amount of \$5,019.

As of September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience (Net of current year amortization)	\$ -	\$ 17,088
Change in actuarial assumptions	-	61,099
Contributions subsequent to the measurement date	8,874	-
Total	\$ 8,874	\$ 78,187

\$20,026 deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ending December 31,	Amount
2025	\$ (20,562)
2026	(23,117)
2027	(27,667)
2028	(5,425)
2029	(1,416)
Thereafter	-
Total	\$ (78,187)

Note 12. Risk Management

DCM is exposed to various risks such as: loss due to torts, theft of, damage to and destruction of assets; errors or omissions; injuries to employees; and natural catastrophes. During fiscal year 2025, DCM purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage from prior years. Furthermore, DCM is not aware of any pending claims for which liability would exceed the limits of commercial insurance coverage in any of the past three years.

**Development Corporation of Mercedes
(A Component Unit of the City of Mercedes, Texas)
Notes to Financial Statements
For the Year Ended September 30, 2025**

Note 13. Contingencies

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

Note 14. Economic Incentive Commitments

DCM extended economic incentives to the following entities as of September 30, 2025:

Description	Amount Committed	Paid in Previous Years	Paid in Current Year	Remaining Commitment
Rio Grande Livestock Show	\$ 300,000	\$ 250,000	\$ 25,000	\$ 25,000
Orchard Grove Apartments	450,000	400,000	50,000	-
Project Travel Center *	268,342	41,133	27,209	200,000
Project Rios of Mercedes	257,000	51,400	51,400	154,200
Project Merit 30	1,000,000	-	1,000,000	-
Total Commitments	\$ 2,275,342	\$ 742,533	\$ 1,153,609	\$ 379,200

*Commitment amount may vary

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

Note 15. Related Party Transactions

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

As of September 30, 2025, as stated in Note 5, the City of Mercedes owes \$335,074 to DCM, which is recorded as "Due from City of Mercedes". DCM owes the City of Mercedes and Mercedes Industrial Foundation as "Due to City of Mercedes" in the Statement of Net Position and Balance Sheet.

Note 16. Subsequent Events

Management has evaluated all events or transactions that occurred after September 30, 2025, through January 27, 2026, the date the current year's financial statements were available to be issued.

Development Corporation of Mercedes
Schedules of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual (Budgetary Basis)
For the Year Ended September 30, 2025

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance Positive/(Negative)
	Original	Final		
Revenues:				
General Sales and Use Taxes	\$ 2,382,483	\$ 2,263,359	\$ 2,314,497	\$ 51,138
Intergovernmental Revenue and Grants	149,000	149,000	151,562	2,562
Investment Earnings	930,712	930,712	33,277	(897,435)
Total Revenues	3,462,195	3,343,071	2,499,337	(843,734)
Expenditures:				
Current:				
General Government	754,305	778,539	606,534	172,005
Conservation and Development:				
Economic Development and Assistance	1,535,820	1,392,096	297,996	1,094,100
Debt Service:				
Principal	1,136,061	1,136,061	1,126,532	9,529
Interest	36,009	36,375	28,743	7,632
Total Expenditures	3,462,195	3,343,071	2,059,805	1,283,266
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	-	-	439,531	439,531
Fund Balance - Beginning	5,588,067	5,588,067	5,588,067	-
Fund Balance - Ending	\$ 5,588,067	\$ 5,588,067	\$ 6,027,599	\$ 439,531

DEVELOPMENT CORPORATION OF MERCEDES
(A COMPONENT UNIT OF THE CITY OF MERCEDES)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Plan Year Ended December 31,							
	2024	2023	2022	2021	2020	2019	2018	2017
Total Pension Liability								
Service cost	\$ 1,054,260	\$ 977,979	\$ 936,213	\$ 924,643	\$ 931,185	\$ 814,509	\$ 723,965	\$ 712,113
Interest (on the total pension liability)	1,802,677	1,753,755	1,696,778	1,587,158	1,522,121	1,487,612	1,447,569	1,398,746
Changes of benefit terms	-	-	-	-	-	-	-	-
Difference between expected and actual experience	(42,548)	(205,386)	(399,108)	418,406	(209,134)	(490,403)	(398,692)	(478,060)
Change of assumptions	-	(196,096)	-	-	-	96,939	-	-
Benefit payments, including refunds of employee contributions	(1,791,802)	(1,495,425)	(1,325,915)	(1,298,057)	(1,256,720)	(1,654,784)	(794,999)	(1,035,847)
Net Change in Total Pension Liability	1,022,587	834,827	907,969	1,632,150	987,452	253,873	977,843	596,952
Total Pension Liability - Beginning	27,075,101	26,240,274	25,332,305	23,700,155	22,712,703	22,458,830	21,480,987	20,884,035
Total Pension Liability - Ending (a)	<u>\$ 28,097,688</u>	<u>\$ 27,075,101</u>	<u>\$ 26,240,274</u>	<u>\$ 25,332,305</u>	<u>\$ 23,700,155</u>	<u>\$ 22,712,703</u>	<u>\$ 22,458,830</u>	<u>\$ 21,480,987</u>
Plan Fiduciary Net Position								
Contributions - employer	\$ 915,565	\$ 879,170	\$ 841,132	\$ 879,935	\$ 959,839	\$ 827,756	\$ 766,842	\$ 783,036
Contributions - employee	413,634	392,988	378,159	368,174	371,413	319,774	288,596	286,977
Net investment income	2,506,390	2,527,977	(1,728,123)	2,737,517	1,476,699	2,675,917	(526,655)	2,135,982
Benefit payments, including refunds of employee contributions	(1,791,802)	(1,495,425)	(1,325,915)	(1,298,057)	(1,256,720)	(1,654,784)	(794,999)	(1,035,847)
Administrative expense	(16,071)	(16,072)	(14,945)	(12,658)	(9,550)	(15,104)	(10,170)	(11,068)
Other	(376)	(112)	17,834	87	(373)	(454)	(531)	(561)
Net Change in Plan Fiduciary Net Position	2,027,340	2,288,526	(1,831,857)	2,674,998	1,541,308	2,153,105	(276,917)	2,158,519
Plan Fiduciary Net Position - Beginning	24,116,853	21,828,327	23,660,184	20,985,186	19,443,878	17,290,773	17,567,690	15,409,172
Plan Fiduciary Net Position - Ending (b)	<u>\$ 26,144,193</u>	<u>\$ 24,116,853</u>	<u>\$ 21,828,327</u>	<u>\$ 23,660,184</u>	<u>\$ 20,985,186</u>	<u>\$ 19,443,878</u>	<u>\$ 17,290,773</u>	<u>\$ 17,567,691</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 1,953,495</u>	<u>\$ 2,958,248</u>	<u>\$ 4,411,947</u>	<u>\$ 1,672,121</u>	<u>\$ 2,714,970</u>	<u>\$ 3,268,825</u>	<u>\$ 5,168,057</u>	<u>\$ 3,913,296</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	93.05%	89.07%	83.19%	93.40%	88.54%	85.61%	76.99%	81.78%
Covered Payroll	\$ 5,889,720	\$ 5,614,119	\$ 5,402,265	\$ 5,259,629	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806	\$ 4,099,672
Net Pension Liability as a Percentage of Covered Payroll	33.17%	52.69%	81.67%	31.79%	51.17%	71.56%	125.35%	95.45%

DEVELOPMENT CORPORATION OF MERCEDES
(A COMPONENT UNIT OF THE CITY OF MERCEDES)
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Plan Year Ended December 31,							
	2024	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 915,565	\$ 879,170	\$ 841,132	\$ 879,935	\$ 959,839	\$ 827,756	\$ 766,842	\$ 783,036
Contributions in relation to actuarially determined contribution	(915,565)	(879,170)	(841,132)	(879,935)	(959,839)	(827,756)	(766,842)	(783,036)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,889,720	\$ 5,614,119	\$ 5,402,265	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806	\$ 4,099,672	\$ 4,134,721
Contributions as a percentage of covered payroll	15.55%	15.66%	15.57%	16.58%	21.01%	20.08%	18.70%	18.94%

DEVELOPMENT CORPORATION OF MERCEDES
 (A COMPONENT UNIT OF THE CITY OF MERCEDES)
 NOTES TO SCHEDULE OF CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2025

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	21 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.6% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	<p>Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).</p> <p>Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).</p>

Other Information:

Notes There were no benefit changes during the year.

DEVELOPMENT CORPORATION OF MERCEDES
(A COMPONENT UNIT OF THE CIT OF MERCEDES)
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Plan Year Ended December 31,				
	2024	2023	2022	2021	2020
Total OPEB Liability					
Service cost	\$ 14,724	\$ 11,228	\$ 24,310	\$ 22,616	\$ 20,162
Interest (on the total OPEB liability)	12,277	12,082	8,280	8,357	8,866
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	4,244	(5,011)	(19,830)	(6,176)	14,641
Change of assumptions	(17,774)	16,474	(149,333)	13,696	55,298
Benefit payments, including refunds of employee contributions	(8,835)	(9,544)	(7,563)	(6,838)	(2,653)
Net Change in Total OPEB Liability	4,636	25,229	(144,136)	31,655	96,314
Total OPEB Liability - Beginning	322,706	297,477	441,613	409,958	313,644
Total OPEB Liability - Ending	<u>\$ 327,342</u>	<u>\$ 322,706</u>	<u>\$ 297,477</u>	<u>\$ 441,613</u>	<u>\$ 409,958</u>
Covered Payroll	\$ 5,889,720	\$ 5,259,629	\$ 5,259,629	\$ 5,259,629	\$ 5,305,900
Total OPEB Liability as a Percentage of Covered Payroll	5.56%	6.14%	5.66%	8.40%	7.73%

DEVELOPMENT CORPORATION OF MERCEDES
 (A COMPONENT UNIT OF THE CITY OF MERCEDES)
 NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2025

Valuation Date: December 31, 2024

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
Discount Rate*	4.08%
Retirees' Share of benefit-related costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASB Statement No. 68.
Mortality Rates - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

DEVELOPMENT CORPORATION OF MERCEDES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30 , 2025

A. TMRS Pension

Changes of Benefit Terms.

There were no changes in benefit terms that affected measurement of the net pension liability during the measurement period.

Changes in Assumptions

The actuarial assumptions and methods are the same as used in the determination of the prior year's net pension liability.

B. TMRS OPEB Plan

Changes of Benefit Terms.

There were no changes in benefit terms since the prior measurement date.

Changes in Assumptions

The following assumptions, methods, and plan changes which are specific to TMRS-Care were updated from the prior year's report:

- The discount rate changed from 3.77 percent as of December 31, 2023, to 4.08 percent, as of December 31, 2024. This change increased the Total OPEB Liability (TOL).

ADRIAN WEBB, CPA

Edinburg, Texas

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund, of the Development Corporation of Mercedes (Corporation), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated January 27, 2026.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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.

Adrian Webb, CPA

ADRIAN WEBB, CPA
Certified Public Accountant
Edinburg, Texas
January 27, 2026