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# **CITY OF ELSA, TEXAS**

**AUDITED ANNUAL FINANCIAL REPORT  
FOR YEAR ENDED SEPTEMBER 30, 2024**

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**ADRIAN WEBB**

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**CERTIFIED PUBLIC ACCOUNTANT**

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**CITY OF ELSA  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

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# **FINANCIAL SECTION**

# ADRIAN WEBB, CPA

Certified Public Accountant  
Edinburg, Texas

## INDEPENDENT AUDITOR'S REPORT

To the City Commission of  
City of Elsa, Texas

### Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elsa, Texas, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Elsa, Texas's basic financial statements as listed in the table of contents.

#### Summary of Opinions

| <u>Opinion Unit</u>                            | <u>Type of Opinion</u> |
|--|------------------------|
| Governmental Activities                        | Qualified              |
| Business-type Activities                       | Qualified              |
| Aggregate Discretely Presented Component Units | Unmodified             |
| Major Funds                                    | Unmodified             |
| Aggregate Remaining Fund Information           | Unmodified             |

#### *Qualified Opinions on Governmental Activities and Business-type activities*

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and business-type activities of the City of Elsa, Texas, as of September 30, 2024, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Unmodified Opinions on Aggregate Discretely Presented Component Units, Major Funds, and Aggregate Remaining Fund Information*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Aggregate Discretely Presented Component Units, major funds, and the aggregate remaining fund information of the City of Elsa, Texas, as of September 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Qualified and Unmodified Opinions

We conducted our audit of the financial statements of the governmental activities and the business-type activities in accordance with auditing standards generally accepted in the United States of America. 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 City of Elsa, Texas, 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 qualified and unmodified audit opinions.

### *Matter Giving Rise to Qualified Opinions on Governmental Activities and the Business-Type Activities*

Management has not currently finalized recording capital assets in a system for governmental activities and business-type activities and, accordingly, has not compiled a record of historical costs, purchase dates, accumulated depreciation, etc. Accounting principles generally accepted in the United States of America require that a record be provided for capital assets, which would increase the assets and net investment in capital assets and change the expenses in the statement of activities. The amount by which this departure would affect the assets, net investment in capital assets, and expenses of the governmental activities and business-type activities has not been determined.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 1 to the basic financial statements, during the year ended September 30, 2024, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 100, *Accounting Changes and Error Corrections*. GASB Statement 100 had no effect on the financial statements. Our opinions are not modified with respect to this matter.

### **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 City of Elsa, Texas's 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 City of Elsa, Texas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Elsa, Texas's ability to continue as a going concern for a reasonable period of time.

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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 information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2025, on our consideration of the City of Elsa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Elsa's 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 City of Elsa's internal control over financial reporting and compliance.

*Adrian Webb, CPA*

Adrian Webb, CPA  
Edinburg, Texas  
April 11, 2025

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS SECTION**

**City of Elsa, Texas**  
**Management’s Discussion and Analysis**  
**For the Year Ended September 30, 2024**

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Elsa, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2024. Please read it in conjunction with the Independent Auditors' Report and the City's Basic Financial Statements.

**FINANCIAL HIGHLIGHTS**

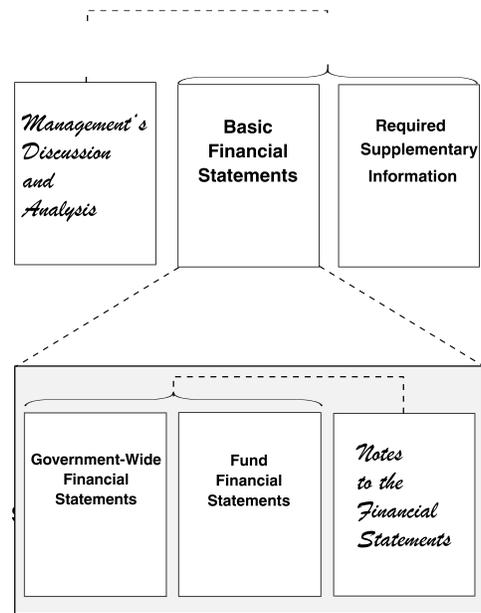
The City’s overall total change in net position was an increase of \$2,037,734 as of September 30, 2024. The change is composed of Governmental Activities’ net position of \$9,021,952 and Business-Type Activities' net position of \$14,033,562 for a total of \$23,055,514 ending balance.

**USING THIS ANNUAL REPORT**

The Management Discussion and Analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Figure A-1, Required Components of the City’s Annual Financial Report

- Government-wide financial statements- The government-wide financial statements are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private sector business.
- Fund Financial statements focus on individual components of the Government, that demonstrates the City’s operations in more depth than the government-wide statements.
- The governmental funds statements demonstrate how the general government services were financed in the short term as well as future expenditures.



The financial statements also include notes that explain some information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this report are arranged and related to one another.

**City of Elsa, Texas**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2024**

**Reporting the City as a Whole**

**The Statement of Net position and the Statement of Activities** – Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such grants provided by the Outside Sources (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

Governmental activities – Most of the City's basic services are reported here, including public safety, public works, culture and recreation, economic development and assistance, and general administration. Property taxes, sales taxes, franchise taxes, charges for services, and state/federal grants finance most of these activities.

**Reporting the City's Most Significant Funds**

***Fund Financial Statements***

**Fund financial statements** – provide detailed information about the most significant funds – not the City as a whole. Laws and/or contracts require the City to establish some funds, such as grants received under the Environmental Protection Agency program. The City's administration establishes several other funds to help it control and manage money for particular purposes. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

**Governmental funds** – Most of the City's basic services are reported in governmental funds. This uses modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

**Proprietary funds** – The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net position and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The City reports no proprietary funds.

**Notes to the Financial Statements** – provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

**City of Elsa, Texas**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2024**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City's Statement of Net Position along with the last fiscal year's numbers are presented for comparison in the table below. The City's overall net position increased by \$2,037,734 during the current fiscal year.

**Table A-1**  
**City of Elsa, Texas**  
**Statement of Net Position**

|                                | <b>Governmental Activities</b> |              | <b>Business-Type Activities</b> |               | <b>Totals</b> |               | <b>Increase<br/>(Decrease)</b> |
|--------------------------------|--------------------------------|--------------|---------------------------------|---------------|---------------|---------------|--------------------------------|
|                                | <b>2024</b>                    | <b>2023</b>  | <b>2024</b>                     | <b>2023</b>   | <b>2024</b>   | <b>2023</b>   |                                |
| <b>Current Assets</b>          |                                |              |                                 |               |               |               |                                |
| Cash and Cash Equivalents      | \$ 6,068,618                   | \$ 1,267,631 | \$ 250,348                      | \$ 94,786     | \$ 6,318,967  | \$ 1,362,417  | \$ 4,956,550                   |
| Taxes Receivable, Net          | 448,361                        | 274,760      | -                               | -             | 448,361       | 274,760       | 173,601                        |
| Accounts Receivable, Net       | 1,256,139                      | 930,204      | 121,499                         | 129,164       | 1,377,638     | 1,059,368     | 318,270                        |
| Due from Other Funds           | 553,896                        | 23,825       | -                               | -             | 553,896       | 23,825        | 530,071                        |
| Due from Others                | 6,545                          | 16,518       | -                               | -             | 6,545         | 16,518        | (9,973)                        |
| Total current assets           | 8,333,559                      | 2,512,939    | 371,847                         | 223,949       | 8,705,406     | 2,736,888     | 5,968,518                      |
| Capital Assets, Net            | 6,572,995                      | 5,420,462    | 14,282,452                      | 14,282,452    | 20,855,447    | 19,702,914    | 1,152,533                      |
| Total Assets                   | \$ 14,906,554                  | \$ 7,933,401 | \$ 14,654,299                   | \$ 14,506,401 | \$ 29,560,853 | \$ 22,439,802 | 7,121,051                      |
| <b>Current Liabilities</b>     |                                |              |                                 |               |               |               |                                |
| Payroll Liabilities            | 38,437                         | 14,756       | -                               | -             | 38,437        | 14,756        | 23,681                         |
| Unearned Revenues              | 95,550                         | -            | -                               | -             | 95,550        | -             | 95,550                         |
| Debt Service - Current         | 363,686                        | 278,729      | 80,682                          | -             | 444,368       | 278,729       | 165,639                        |
| Other Current Liabilities      | 49,054                         | -            | 540,055                         | 253,231       | 589,109       | 253,231       | 335,878                        |
| Total Current Liabilities      | 546,727                        | 293,485      | 620,737                         | 253,231       | 1,167,463     | 546,716       | 620,748                        |
| <b>Non-Current Liabilities</b> |                                |              |                                 |               |               |               |                                |
| Debt Service - Noncurrent      | 5,337,875                      | 875,307      | -                               | -             | 5,337,875     | 875,307       | 4,462,568                      |
| Total Non-Current Liabilities  | 5,337,875                      | 875,307      | -                               | -             | 5,337,875     | 875,307       | 4,462,568                      |
| Total Liabilities              | 5,884,602                      | 1,168,792    | 620,737                         | 253,231       | 6,505,338     | 1,422,023     | 5,083,316                      |
| <b>Net Position</b>            |                                |              |                                 |               |               |               |                                |
| Net Invested in Capital Assets | 871,434                        | 4,266,426    | 14,282,452                      | 14,282,451    | 15,153,886    | 18,548,877    | (3,394,992)                    |
| Restricted                     | 5,195,580                      | 317,639      | -                               | -             | 5,195,580     | 317,639       | 4,877,941                      |
| Unrestricted                   | 2,954,938                      | 2,180,544    | (248,889)                       | (29,281)      | 2,706,049     | 2,151,264     | 554,786                        |
| Total Net Position             | \$ 9,021,952                   | \$ 6,764,609 | \$ 14,033,562                   | \$ 14,253,171 | \$ 23,055,514 | \$ 21,017,780 | \$ 2,037,734                   |

**City of Elsa, Texas**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2024**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued**

Total revenues increased by \$1,787,198 and total expenses increased by \$808,575. The change in net position for the current fiscal year was an increase of \$2,037,735.

Table A-2  
City of Elsa, Texas  
(In Dollars)

|                                      | Governmental Activities    |                            | Business- Type              |                             | Totals                      |                             | Increase<br>(Decrease)     |
|--------------------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
|                                      | 2024                       | 2023                       | 2024                        | 2023                        | 2024                        | 2023                        |                            |
| Revenues                             |                            |                            |                             |                             |                             |                             |                            |
| Program Revenues                     |                            |                            |                             |                             |                             |                             |                            |
| Charges for Services                 | \$ 1,105,678               | \$ 1,170,549               | \$ 1,495,879                | \$ 1,440,455                | \$ 2,601,557                | \$ 2,611,004                | \$ (9,447)                 |
| General Revenues                     |                            |                            |                             |                             |                             |                             |                            |
| Property Taxes                       | 2,188,969                  | 1,762,298                  | -                           | -                           | 2,188,969                   | 1,762,298                   | 426,671                    |
| Sales Taxes                          | 1,400,077                  | 1,168,844                  | -                           | -                           | 1,400,077                   | 1,168,844                   | 231,233                    |
| Franchise Taxes                      | 226,437                    | 237,132                    | -                           | -                           | 226,437                     | 237,132                     | (10,695)                   |
| Penalty and Interest                 | 70,718                     | 77,652                     | -                           | -                           | 70,718                      | 77,652                      | (6,934)                    |
| Miscellaneous Revenue                | 719,209                    | 781,634                    | -                           | -                           | 719,209                     | 781,634                     | (62,425)                   |
| Intergovernmental Revenue and Grants | 1,350,869                  | 690,592                    | -                           | -                           | 1,350,869                   | 690,592                     | 660,277                    |
| Transfers                            | 689,189                    | (56,405)                   | -                           | 187,077                     | 689,189                     | 130,672                     | 558,518                    |
| Total Revenues                       | <u>7,751,147</u>           | <u>5,832,296</u>           | <u>1,495,879</u>            | <u>1,627,532</u>            | <u>9,247,026</u>            | <u>7,459,828</u>            | <u>1,787,199</u>           |
| Expenses                             |                            |                            |                             |                             |                             |                             |                            |
| General Government                   | 3,177,544                  | 2,180,781                  | -                           | -                           | 3,177,544                   | 2,180,781                   | 996,763                    |
| Public Safety                        | 995,608                    | 1,412,829                  | -                           | -                           | 995,608                     | 1,412,829                   | (417,221)                  |
| Public Works                         | 845,740                    | 466,599                    | -                           | -                           | 845,740                     | 466,599                     | 379,141                    |
| Health and Welfare                   | 95,889                     | 203,332                    | -                           | -                           | 95,889                      | 203,332                     | (107,443)                  |
| Culture and Recreational             | 144,556                    | 226,418                    | -                           | -                           | 144,556                     | 226,418                     | (81,862)                   |
| Debt Interest                        | 234,467                    | 209,211                    | -                           | -                           | 234,467                     | 209,211                     | 25,256                     |
| Water and Sewer                      | -                          | -                          | 1,715,487                   | 1,701,545                   | 1,715,487                   | 1,701,545                   | 13,942                     |
| Total Expenses                       | <u>\$ 5,493,804</u>        | <u>\$ 4,699,170</u>        | <u>\$ 1,715,487</u>         | <u>\$ 1,701,545</u>         | <u>\$ 7,209,291</u>         | <u>\$ 6,400,715</u>         | <u>808,575</u>             |
| Change in Net Position               | 2,257,343                  | 1,133,126                  | (219,608)                   | (74,014)                    | 2,037,735                   | 1,059,112                   | 978,623                    |
| Net Position Beginning               | 6,764,609                  | 5,469,533                  | 14,253,171                  | 14,327,185                  | 21,017,780                  | 19,796,718                  | 1,221,062                  |
| <b>Net Position Ending</b>           | <b><u>\$ 9,021,952</u></b> | <b><u>\$ 6,602,659</u></b> | <b><u>\$ 14,033,562</u></b> | <b><u>\$ 14,253,171</u></b> | <b><u>\$ 23,055,514</u></b> | <b><u>\$ 20,855,830</u></b> | <b><u>\$ 2,199,684</u></b> |

**Financial Analysis of the City's Funds**

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

**Governmental funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Government's net resources available for spending at the end of the fiscal year. The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund had a balance of \$1,348,690.

**City of Elsa, Texas**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2024**

**Capital Assets and Debt Administration**

**Capital Assets**

The City's investments in capital assets for its governmental activities amount to \$871,434 (net of accumulated depreciation) for 2024. Business-type activities amounted to \$14,282,452 for 2024. This investment in capital assets includes land, buildings, construction in progress, machinery and equipment, infrastructure/streets, and vehicles. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table A-3**

|                                   | <b>Governmental Activities</b> |                     | <b>Business-Type</b> |                      | <b>Totals</b>        |                      | <b>Increase/<br/>(Decrease)</b> |
|-----------------------------------|--------------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|---------------------------------|
|                                   | <b>2024</b>                    | <b>2023</b>         | <b>2024</b>          | <b>2023</b>          | <b>2024</b>          | <b>2023</b>          |                                 |
| Capital Assets                    |                                |                     |                      |                      |                      |                      |                                 |
| Land                              | \$ 154,191                     | \$ 154,191          | \$ 13,046            | \$ 13,046            | \$ 167,237.00        | \$ 167,237           | \$ -                            |
| Buildings                         | 1,661,234                      | 1,595,168           | -                    | -                    | 1,661,234.00         | 1,595,168            | 66,066                          |
| Furniture and Equipment           | 3,970,139                      | 3,814,479           | 861,921              | 854,257              | 4,832,060.00         | 4,668,736            | 163,324                         |
| Infrastructure/Streets            | 3,853,731                      | 2,851,636           | 18,944,582           | 18,944,582           | 22,798,313.00        | 21,796,218           | 1,002,095                       |
| Right-of-Use Assets               | 213,846                        | 213,846             | -                    | -                    | 213,846.00           | 213,846              | -                               |
| <b>Total Capital Assets</b>       | <b>\$ 9,853,142</b>            | <b>\$ 8,629,320</b> | <b>\$ 19,819,550</b> | <b>\$ 19,811,885</b> | <b>\$ 29,672,692</b> | <b>\$ 28,441,205</b> | <b>1,231,487</b>                |
| Less: Accumulated Depreciation    | \$ (3,280,147)                 | \$ (3,208,858)      | \$ (5,537,098)       | \$ (5,537,098)       | \$ (8,817,245)       | \$ (8,745,956)       | (71,289)                        |
| <b>Total Capital Assets (Net)</b> | <b>\$ 6,572,995</b>            | <b>\$ 5,420,462</b> | <b>\$ 14,282,452</b> | <b>\$ 14,274,787</b> | <b>\$ 20,855,447</b> | <b>\$ 19,695,249</b> | <b>\$ 1,160,198</b>             |

**Long-Term Debt**

Below is a table summarizing the long-term debt obligations of the City for the current fiscal year.

|                       | <b>Governmental Activities</b> |                     | <b>Business-Type</b> |             | <b>Totals</b>       |                     | <b>Increase<br/>(Decrease)</b> |
|-----------------------|--------------------------------|---------------------|----------------------|-------------|---------------------|---------------------|--------------------------------|
|                       | <b>2024</b>                    | <b>2023</b>         | <b>2024</b>          | <b>2023</b> | <b>2024</b>         | <b>2023</b>         |                                |
| Long-Term Obligations | \$ 5,633,671                   | \$ 1,176,807        | \$ -                 | \$ -        | \$ 5,633,671        | \$ 1,176,807        | \$ 4,456,864                   |
| Leases Payable (Net)  | 67,890                         | 139,179             | -                    | -           | 67,890              | 139,179             | (71,289)                       |
| Current Portion       | 363,686                        | 278,729             | -                    | -           | 363,686             | 278,729             | 84,957                         |
|                       | <b>\$ 6,065,247</b>            | <b>\$ 1,594,715</b> | <b>\$ -</b>          | <b>\$ -</b> | <b>\$ 6,065,247</b> | <b>\$ 1,594,715</b> | <b>\$ 4,470,532</b>            |

Additional information on the City's debt service can be found in the notes to the financial statements.

**Economic Factors and Next Year's Budget and Rates**

The City's elected and appointed officials considered many factors when setting the fiscal year end 2024-2025 budget.

1. The ad valorem property tax rate was set at \$.7908 to generate the revenues necessary for the operation of the City. This tax rate should increase total property taxes as compared to the prior year.
2. The general operating fund spending budget for 2024-2025 was prepared based on the history of actual definite revenues and essential expenses to operate.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or the component unit (EDC) should be addressed to the Office of the City Elsa, City Administrator: 121 P.O. Box 427, Elsa, Texas 78543.

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# **BASIC FINANCIAL STATEMENTS**

**City of Elsa**  
**Statement of Net Position**  
**September 30, 2024**

|   | Governmental<br>Activities | Business-Type<br>Activities | Total                | Discrete Component<br>Units |
|---|----------------------------|-----------------------------|----------------------|-----------------------------|
| <b>ASSETS:</b>                                    |                            |                             |                      |                             |
| Current Assets:                                   |                            |                             |                      |                             |
| 1010 Cash and Cash Equivalents                    | \$ 6,068,618               | \$ 250,348                  | \$ 6,318,967         | \$ 682,878                  |
| Receivables (Net of Allowance for Uncollectible): |                            |                             |                      |                             |
| 1050 Taxes Receivable, Net                        | 448,361                    | -                           | 448,361              | -                           |
| 1150 Accounts Receivable, Net                     | 1,256,139                  | 121,499                     | 1,377,638            | -                           |
| 1260 Due from Other Governments                   | 6,545                      | -                           | 6,545                | -                           |
| 1300 Due from Other Funds                         | 553,896                    | -                           | 553,896              | 11,000                      |
| Total Current Assets                              | 8,333,559                  | 371,847                     | 8,705,406            | 693,878                     |
| Noncurrent Assets:                                |                            |                             |                      |                             |
| Capital Assets                                    |                            |                             |                      |                             |
| 1791 Capital Assets Not Being Depreciated         | 154,191                    | 13,046                      | 167,237              | 2,641,481                   |
| 1792 Capital Assets Being Depreciated             | 9,698,951                  | 19,806,504                  | 29,505,455           | -                           |
| 1780 Accumulated Depreciation                     | (3,280,147)                | (5,537,098)                 | (8,817,245)          | -                           |
| Total Capital Assets                              | 6,572,995                  | 14,282,452                  | 20,855,447           | 2,641,481                   |
| Total Noncurrent Assets                           | 6,572,995                  | 14,282,452                  | 20,855,447           | 2,641,481                   |
| <b>TOTAL ASSETS</b>                               | <b>14,906,554</b>          | <b>14,654,299</b>           | <b>\$ 29,560,853</b> | <b>\$ 3,335,359</b>         |
| <b>LIABILITIES:</b>                               |                            |                             |                      |                             |
| Current Liabilities:                              |                            |                             |                      |                             |
| 2013 Accrued Interest                             | 24,132                     | -                           | 24,132               | -                           |
| 2015 Customer Deposits                            | 2,800                      | 80,682                      | 83,482               | -                           |
| 2020 Payroll Liabilities                          | 38,437                     | -                           | 38,437               | -                           |
| 2080 Due to Other Funds                           | 22,122                     | 540,055                     | 562,177              | 2,719                       |
| 2230 Unearned Revenues                            | 95,550                     | -                           | 95,550               | -                           |
| Total Current Liabilities                         | 183,041                    | 620,737                     | 803,778              | 2,719                       |
| Noncurrent Liabilities:                           |                            |                             |                      |                             |
| Debt Service                                      |                            |                             |                      |                             |
| 2506 Due Within One Year                          | 363,686                    | -                           | 363,686              | 381,130                     |
| 2507 Due in More Than One Year                    | 5,337,875                  | -                           | 5,337,875            | -                           |
| Total Noncurrent Liabilities                      | 5,701,561                  | -                           | 5,701,561            | 381,130                     |
| <b>TOTAL LIABILITIES</b>                          | <b>5,884,602</b>           | <b>620,737</b>              | <b>6,505,339</b>     | <b>383,849</b>              |
| <b>NET POSITION:</b>                              |                            |                             |                      |                             |
| 4001 Net Investment in Capital Assets             | 871,434                    | 14,282,452                  | 15,153,885           | 2,260,351                   |
| Restricted For:                                   |                            |                             |                      |                             |
| 3006 Debt Service                                 | 226,891                    | -                           | 226,891              | -                           |
| 3007 Capital Projects                             | 4,968,689                  | -                           | 4,968,689            | -                           |
| 3425 Economic Development                         | -                          | -                           | -                    | 691,159                     |
| 3890 Unrestricted                                 | 2,954,938                  | (248,889)                   | 2,706,049            | -                           |
| <b>TOTAL NET POSITION</b>                         | <b>9,021,952</b>           | <b>14,033,562</b>           | <b>23,055,514</b>    | <b>2,951,510</b>            |
| <b>TOTAL LIABILITIES &amp; NET POSITION</b>       | <b>\$ 14,906,554</b>       | <b>\$ 14,654,299</b>        | <b>\$ 29,560,853</b> | <b>\$ 3,335,359</b>         |

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

**City of Elsa**  
**Statement of Activities**  
**For the Year Ended September 30, 2024**

|   | Program Revenues |                         |                                       | Net (Expense) Revenue and<br>Changes in Net Position |                             |                      | Discretely Presented<br>Component Units |
|---|------------------|-------------------------|---------------------------------------|--|-----------------------------|----------------------|---|
|   | Expenses         | Charges for<br>Services | Operating Grants<br>and Contributions | Primary Government                                   |                             |                      |   |
|   |                  |                         |                                       | Governmental<br>Activities                           | Business-Type<br>Activities | Total                |   |
| <b>Primary Government:</b>                  |                  |                         |                                       |  |                             |                      |   |
| <b>GOVERNMENTAL ACTIVITIES:</b>             |                  |                         |                                       |  |                             |                      |   |
| General Government                          | \$ 3,177,544     | \$ 534,122              | \$ 721,305                            | \$ (1,922,118)                                       | \$ -                        | \$ (1,922,118)       | \$ -                                    |
| Public Safety                               | 995,608          | 453,446                 | 84,661                                | (457,502)  | -                           | (457,502)            | -                                       |
| Public Works                                | 845,740          | 63,284                  | 351,069                               | (431,387)  | -                           | (431,387)            | -                                       |
| Health and Welfare                          | 95,889           | -                       | -                                     | (95,889)   | -                           | (95,889)             | -                                       |
| Culture and Recreation                      | 144,556          | 54,826                  | 193,835                               | 104,106  | -                           | 104,106              | (1,238,810)                             |
| Other Debt Service                          | 98,441           | -                       | -                                     | (98,441)   | -                           | (98,441)             | -                                       |
| Interest on Debt                            | 136,026          | -                       | -                                     | (136,026)  | -                           | (136,026)            | -                                       |
| Total Governmental Activities               | <u>5,493,804</u> | <u>1,105,678</u>        | <u>1,350,869</u>                      | <u>(3,037,257)</u>                                   | <u>-</u>                    | <u>(3,037,257)</u>   | <u>(1,238,810)</u>                      |
| <b>BUSINESS-TYPE ACTIVITIES:</b>            |                  |                         |                                       |  |                             |                      |   |
| Water and Sewer                             | 1,715,487        | 1,495,879               | -                                     | -  | (219,608)                   | (219,608)            | -                                       |
| Total Business-Type Activities              | <u>1,715,487</u> | <u>1,495,879</u>        | <u>-</u>                              | <u>-</u>   | <u>(219,608)</u>            | <u>(219,608)</u>     | <u>-</u>                                |
| <b>TOTAL PRIMARY GOVERNMENT</b>             | <u>7,209,291</u> | <u>2,601,557</u>        | <u>1,350,869</u>                      | <u>(3,037,257)</u>                                   | <u>(219,608)</u>            | <u>(3,256,865)</u>   | <u>(1,238,810)</u>                      |
| General Revenues                            |                  |                         |                                       |  |                             |                      |   |
| Taxes:                                      |                  |                         |                                       |  |                             |                      |   |
| Property Taxes, Levied for General Purposes |                  |                         |                                       | 1,598,554  | -                           | 1,598,554            | -                                       |
| Property Taxes, Levied for Debt Service     |                  |                         |                                       | 590,415  | -                           | 590,415              | -                                       |
| General Sales and Use Taxes                 |                  |                         |                                       | 1,400,077  | -                           | 1,400,077            | 1,400,077                               |
| Franchise Tax                               |                  |                         |                                       | 226,437  | -                           | 226,437              | -                                       |
| Other Taxes                                 |                  |                         |                                       | 56,941   | -                           | 56,941               | -                                       |
| Penalties and Interest on Taxes             |                  |                         |                                       | 70,718   | -                           | 70,718               | -                                       |
| Licenses, Permits, and Fines                |                  |                         |                                       | 575,414  | -                           | 575,414              | -                                       |
| Miscellaneous Revenue                       |                  |                         |                                       | 86,854   | -                           | 86,854               | 7,950                                   |
| Transfers In (Out)                          |                  |                         |                                       | 689,189  | -                           | 689,189              | (689,189)                               |
| Total General Revenues and Transfers        |                  |                         |                                       | <u>5,294,600</u>                                     | <u>-</u>                    | <u>5,294,600</u>     | <u>718,839</u>                          |
| Change in Net Position                      |                  |                         |                                       | 2,257,343  | (219,608)                   | 2,037,734            | (519,972)                               |
| Net Position - Beginning                    |                  |                         |                                       | \$ 6,764,609   | \$ 14,253,171               | \$ 21,017,780        | \$ 3,471,482                            |
| Net Position - Ending                       |                  |                         |                                       | <u>\$ 9,021,952</u>                                  | <u>\$ 14,033,562</u>        | <u>\$ 23,055,514</u> | <u>\$ 2,951,510</u>                     |

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

City of Elsa  
Balance Sheet - Governmental Funds  
September 30, 2024

Major Governmental Funds

|  | General Fund        | American Recovery<br>Plan Act | Community Center<br>Project Fund | Non-Major<br>Governmental Funds | Total Governmental<br>Funds |
|--|---------------------|-------------------------------|----------------------------------|---------------------------------|-----------------------------|
| <b>ASSETS:</b>   |                     |                               |                                  |                                 |                             |
| 1010 Cash and Cash Equivalents                                     | \$ 758,085          | \$ 95,550                     | \$ 4,893,059                     | \$ 321,924                      | \$ 6,068,618                |
| 1050 Taxes Receivable, Net   | 337,334             | -                             | -                                | 111,027                         | 448,361                     |
| 1150 Accounts Receivable, Net                                      | 1,256,139           | -                             | -                                | -                               | 1,256,139                   |
| 1260 Due from Other Governments                                    | 6,545               | -                             | -                                | -                               | 6,545                       |
| 1300 Due from Other Funds  | 551,177             | -                             | -                                | 2,719                           | 553,896                     |
| <b>TOTAL ASSETS</b>  | <b>\$ 2,909,280</b> | <b>\$ 95,550</b>              | <b>\$ 4,893,059</b>              | <b>\$ 435,670</b>               | <b>\$ 8,333,559</b>         |
| <b>LIABILITIES:</b>  |                     |                               |                                  |                                 |                             |
| 2015 Customer Deposits   | 2,800               | -                             | -                                | -                               | 2,800                       |
| 2020 Payroll Liabilities   | 38,437              | -                             | -                                | -                               | 38,437                      |
| 2080 Due to Other Funds  | -                   | -                             | -                                | 22,122                          | 22,122                      |
| 2230 Unearned Revenues   | -                   | 95,550                        | -                                | -                               | 95,550                      |
| <b>TOTAL LIABILITIES</b>   | <b>41,237</b>       | <b>95,550</b>                 | <b>-</b>                         | <b>22,122</b>                   | <b>158,909</b>              |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                              |                     |                               |                                  |                                 |                             |
| 2601 Deferred Resource Inflow - Property Taxes                     | 337,334             | -                             | -                                | 111,027                         | 448,361                     |
| 2606 Deferred Resource Inflow - Court Fines                        | 1,182,019           | -                             | -                                | -                               | 1,182,019                   |
| <b>TOTAL DEFERRED INFLOWS OF<br/>RESOURCES</b>                     | <b>1,519,353</b>    | <b>-</b>                      | <b>-</b>                         | <b>111,027</b>                  | <b>1,630,380</b>            |
| <b>FUND BALANCES:</b>  |                     |                               |                                  |                                 |                             |
| Restricted for:  |                     |                               |                                  |                                 |                             |
| 3006 Debt Service  | -                   | -                             | -                                | 226,891                         | 226,891                     |
| 3007 Capital Projects  | -                   | -                             | 4,893,059                        | 75,630                          | 4,968,689                   |
| 3600 Unassigned  | 1,348,690           | -                             | -                                | -                               | 1,348,690                   |
| <b>TOTAL FUND BALANCES</b>   | <b>1,348,690</b>    | <b>-</b>                      | <b>4,893,059</b>                 | <b>302,521</b>                  | <b>6,544,270</b>            |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS &amp;<br/>FUND BALANCES</b> | <b>\$ 2,909,280</b> | <b>\$ 95,550</b>              | <b>\$ 4,893,059</b>              | <b>\$ 435,670</b>               | <b>\$ 8,333,559</b>         |

**City of Elsa**  
**Reconciliation of the Balance Sheet - Governmental to the Governmental Activities -**  
**Statement of Net Position**  
**September 30, 2024**

|   |    |           |
|---|----|-----------|
| <b>Total Fund Balances - Governmental Funds</b> | \$ | 6,544,270 |
|---|----|-----------|

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

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

|                                      |             |           |
|--------------------------------------|-------------|-----------|
| Capital Assets Not Being Depreciated | 154,191     |           |
| Capital Assets Being Depreciated     | 9,698,951   |           |
| Accumulated Depreciation             | (3,280,147) |           |
| Total Capital Assets, Net            |             | 6,572,995 |

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.

|  |             |             |
|--|-------------|-------------|
| Debt Service - Due Within One Year       | (363,686)   |             |
| Debt Service - Due in More Than One Year | (5,337,875) |             |
| Total Long-Term Liabilities              |             | (5,701,561) |

Some receivables are reported as deferred inflows of resources at the governmental level, and therefore are not reported in governmental funds.

|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Property Taxes                      | 448,361   |           |
| Court Fines                         | 1,182,019 |           |
| Total Deferred Inflows of Resources |           | 1,630,380 |

Interest on long-term debt is not accrued in the governmental funds, but is recognized as an expenditure in the funds.

|                                |          |          |
|--------------------------------|----------|----------|
| Accrued Interest Payable       | (24,132) |          |
| Total Accrued Interest Payable |          | (24,132) |

|  |           |                  |
|--|-----------|------------------|
| <b>Net position of governmental activities</b> | <b>\$</b> | <b>9,021,952</b> |
|--|-----------|------------------|

**City of Elsa**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds**  
**For The Year Ended September 30, 2024**

| <b>Major Governmental Funds</b>        |  |                                       |  |   |                                     |                  |
|--|--|---------------------------------------|--|---|-------------------------------------|------------------|
|  | <b>General Fund</b>  | <b>American Recovery<br/>Plan Act</b> | <b>Community Center<br/>Project Fund</b> | <b>Non-Major<br/>Governmental Funds</b> | <b>Total Governmental<br/>Funds</b> |                  |
| <b>REVENUES:</b>                       |  |                                       |  |   |                                     |                  |
| Taxes:                                 |  |                                       |  |   |                                     |                  |
| 5110                                   | Property Taxes   | \$ 1,513,957                          | \$ -                                     | \$ -                                    | \$ 556,481                          | \$ 2,070,438     |
| 5120                                   | General Sales and Use Taxes                                | 1,400,077                             | -  | -                                       | -                                   | 1,400,077        |
| 5170                                   | Franchise Tax  | 226,437                               | -  | -                                       | -                                   | 226,437          |
| 5180                                   | Other Taxes  | 56,941                                | -  | -                                       | -                                   | 56,941           |
| 5190                                   | Penalty and Interest on Taxes                              | 51,163                                | -  | -                                       | 19,555                              | 70,718           |
| 5200                                   | Licenses and Permits                                       | 197,168                               | -  | -                                       | -                                   | 197,168          |
| 5300                                   | Intergovernmental Revenue and Grants                       | 450,130                               | 706,904                                  | -                                       | 193,835                             | 1,350,869        |
| Fees and Charges:                      |  |                                       |  |   |                                     |                  |
| 5400                                   | Charges for Services                                       | 1,105,678                             | -  | -                                       | -                                   | 1,105,678        |
| 5406                                   | Recreation and Events                                      | 102,798                               | -  | -                                       | -                                   | 102,798          |
| 5510                                   | Fines  | 141,013                               | -  | -                                       | -                                   | 141,013          |
| 5620                                   | Rents and Royalties  | 14,076                                | -  | -                                       | -                                   | 14,076           |
| 5700                                   | Other Revenue  | 107,535                               | -  | -                                       | -                                   | 107,535          |
|  | <b>TOTAL REVENUES</b>                                      | <b>5,366,974</b>                      | <b>706,904</b>                           | <b>-</b>                                | <b>769,871</b>                      | <b>6,843,750</b> |
| <b>EXPENDITURES:</b>                   |  |                                       |  |   |                                     |                  |
| Current:                               |  |                                       |  |   |                                     |                  |
| 100                                    | General Government   | 3,464,015                             | 9,338                                    | 8,500                                   | 20,800                              | 3,502,654        |
| 200                                    | Public Safety  | 1,097,474                             | -  | -                                       | -                                   | 1,097,474        |
| 310                                    | Public Works   | 635,005                               | 297,266                                  | -                                       | -                                   | 932,271          |
| 400                                    | Health and Welfare   | 105,700                               | -  | -                                       | -                                   | 105,700          |
| 500                                    | Culture and Recreation                                     | 159,346                               | -  | -                                       | -                                   | 159,346          |
| Debt Service:                          |  |                                       |  |   |                                     |                  |
| 710                                    | Principal on Debt  | 63,412                                | -  | -                                       | 551,013                             | 614,425          |
| 720                                    | Interest on Debt   | 14,197                                | -  | -                                       | 97,697                              | 111,894          |
| 723                                    | Bond Issuance Cost   | -                                     | -  | 98,441                                  | -                                   | 98,441           |
| 800                                    | Capital Outlay   | 313,480                               | 400,300                                  | -                                       | 510,042                             | 1,223,822        |
|  | <b>TOTAL EXPENDITURES</b>                                  | <b>5,852,629</b>                      | <b>706,904</b>                           | <b>106,941</b>                          | <b>1,179,552</b>                    | <b>7,846,027</b> |
|  | Excess(Deficiency) of Revenues Over(Under)<br>Expenditures | (485,655)                             | -  | (106,941)                               | (409,681)                           | (1,002,277)      |
| <b>OTHER FINANCING SOURCES (USES):</b> |  |                                       |  |   |                                     |                  |
| 7914                                   | Bond Proceeds  | -                                     | -  | 5,000,000                               | -                                   | 5,000,000        |
| 7915                                   | Transfers In   | 294,626                               | -  | -                                       | 394,563                             | 689,189          |
|  | <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                | <b>294,626</b>                        | <b>-</b>                                 | <b>5,000,000</b>                        | <b>394,563</b>                      | <b>5,689,189</b> |
|  | Net Change in Fund Balances                                | (191,029)                             | -  | 4,893,059                               | (15,118)                            | 4,686,912        |
| 3600                                   | Fund Balance - Beginning                                   | \$ 1,539,719                          | \$ -                                     | \$ -                                    | \$ 317,639                          | \$ 1,857,358     |
| 3900                                   | Fund Balance - Ending                                      | \$ 1,348,690                          | \$ -                                     | \$ 4,893,059                            | \$ 302,521                          | \$ 6,544,270     |

## City of Elsa

**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, 2024**

|  |    |                 |
|--|----|-----------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>  | \$ | 4,686,912       |
| <p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the current year's capital outlays and debt principal payments is to increase (decrease) the change in net position.</p> |    |                 |
| Additions to Capital Assets  |    | 1,223,822       |
| Depreciation of Capital Assets   |    | <u>(71,289)</u> |
|  |    | 1,152,533       |
| <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>  |    |                 |
| Bond Proceeds  |    | (5,000,000)     |
| Principal Repayment  |    | <u>614,425</u>  |
|  |    | (4,385,575)     |
| <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>  |    |                 |
| Accrued Interest Payable   |    | <u>(24,132)</u> |
|  |    | (24,132)        |
| <p>Because some property taxes and accounts receivable will not be collected for several months after the City's year end, they are not considered "available" revenues in the governmental funds. This represents the change in unavailable revenue from the prior year.</p>  |    |                 |
| Property Taxes   |    | 316,649         |
| Court Fines  |    | <u>510,956</u>  |
|  |    | 827,605         |
| Change in Net Position of Governmental Activities  | \$ | 2,257,343       |

**City of Elsa**  
**Statement of Net Position - Proprietary Funds**  
**September 30, 2024**

|   | <b>Enterprise Fund</b>   |
|---|--------------------------|
| <b>ASSETS:</b>                                  |                          |
| Current Assets:                                 |                          |
| 1010 Cash and Cash Equivalents                  | \$ 250,348               |
| 1150 Accounts Receivable, Net                   | 121,499                  |
| Total Current Assets                            | 371,847                  |
| Noncurrent Assets:                              |                          |
| 1791 Capital Assets Not Being Depreciated       | 13,046                   |
| 1792 Capital Assets Being Depreciated           | 19,806,504               |
| 1780 Accumulated Depreciation                   | (5,537,098)              |
| Total Noncurrent Assets                         | 14,282,452               |
| <b>TOTAL ASSETS</b>                             | <b>\$ 14,654,299</b>     |
| <br><b>LIABILITIES:</b>                         |                          |
| Current Liabilities:                            |                          |
| 2015 Customer Deposits                          | 80,682                   |
| 2080 Due to Other Funds                         | 540,055                  |
| <b>TOTAL LIABILITIES</b>                        | <b>620,737</b>           |
| <br><b>NET POSITION:</b>                        |                          |
| 4001 Net Investment in Capital Assets           | 14,282,452               |
| 3890 Unrestricted                               | (248,889)                |
| <b>TOTAL NET POSITION</b>                       | <b>14,033,562</b>        |
| <br><b>TOTAL LIABILITIES &amp; NET POSITION</b> | <br><b>\$ 14,654,299</b> |

**City of Elsa**  
**Statement of Revenues, Expenditures, and Changes in Net Position -**  
**Proprietary Funds**  
**For the Year Ended September 30, 2024**

|                            |   | <b>Enterprise<br/>Fund</b>  |
|----------------------------|---|-----------------------------|
| <b>OPERATING REVENUES:</b> |   |                             |
| 5401                       | Water Revenues                              | \$ 848,007                  |
| 5402                       | Sewer Revenues                              | 640,520                     |
| 5700                       | Other Revenue                               | 7,352                       |
|                            | Total Operating Revenues                    | <u>1,495,879</u>            |
| <b>OPERATING EXPENSES:</b> |   |                             |
| 6100                       | Personnel Services - Salaries and Wages     | 650,073                     |
| 6200                       | Personnel Services - Employee Benefits      | 286,483                     |
| 6300                       | Purchased Professional & Technical Services | 69,439                      |
| 6500                       | Other Operating Costs                       | 411,154                     |
| 6502                       | Repairs and Maintenance                     | 103,921                     |
| 6600                       | Supplies                                    | 194,417                     |
|                            | Total Operating Expenses                    | <u>1,715,487</u>            |
|                            | <b>OPERATING INCOME(LOSS)</b>               | <u>(219,608)</u>            |
|                            | <b>Change in Net Position</b>               | <b>\$ (219,608)</b>         |
| 3890                       | <b>Net Position - Beginning</b>             | <u>\$ 14,253,171</u>        |
| 3900                       | <b>Net Position - Ending</b>                | <u><u>\$ 14,033,562</u></u> |

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**EXHIBIT D-3**

**City of Elsa  
Statement of Cash Flows - Proprietary Funds  
For the Year Ended September 30, 2024**

|   | <b>Enterprise Fund</b> |
|---|------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                        |
| Total Receipts From Customers   | \$ 1,495,879           |
| Total Payments to Suppliers   | (403,761)              |
| Total Payments to Employees   | (936,556)              |
| Net Cash Flows Provided/(Used) by Operating Activities  | <u>155,562</u>         |
| Net Increase/Decrease in Cash and Cash Equivalents  | 155,562                |
| Cash Beginning of Fiscal Year   | 94,786                 |
| Cash End of Fiscal Year   | <u>\$ 250,348</u>      |
| <br><b>Reconciliation of Operating Income of Net Cash Provided/(Used) by Operating Activities</b> |                        |
| Operating Income  | \$ (219,608)           |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:           |                        |
| Effect of Increases/Decreases in Current Assets and Liabilities                                   |                        |
| Decrease (Increase) in Receivables  | 7,665                  |
| Increase(Decrease) in Other Current Liabilities   | 358,491                |
| Increase(Decrease) in Customer Deposits   | 9,015                  |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ 155,562</u>      |

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## **NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1**      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A.**      **General Statement**

The City of Elsa, Texas was incorporated on February 20, 1933. The City operates under a Commission-Manager form of government and provides the following services authorized by its charter: general government, (Legislative, city secretary, general administration, court, tax, and building maintenance), public safety (police and fire protection), street and highways, health, planning and zoning, culture and recreation (library and parks), and public improvements. Other services include water delivery, wastewater collection (sewer service) and sanitation (garbage collection). The city shall have all the powers conferred upon and granted to Home Rule Cities under the provisions of Article 1175 of the revised Civil Statutes of Texas.

The City was incorporated under Article 966, Chapter 12, Title 28 of the Revised Civil Statutes of the State of Texas. The City exercises powers granted to General Law Type-A Cities.

The accounting and reporting policies of the City of Elsa, Texas as reflected in the accompanying financial statements conform to generally accepted accounting principles (GAAP) in the United States of America applicable to state and local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the more significant accounting and reporting policies and reported practices used by the City.

The City implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local governments*. GASB Statement No. 34 required the City to report and depreciate new infrastructure assets.

**B.**      **Financial Reporting Entity**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in conformity in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization.
- the City appoints a voting majority of the organization's board.
- the City is able to impose its will on the organization.
- the organization has the potential to impose a financial benefit/burden on the City.
- there is fiscal dependency by the organization on the City.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Elsa, Texas, and its component units, entities for which the City is considered to be financial accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

*Blended component units* – Blended component units, although legally separate entities, are in substance part of the government's operations and so data from these units are combined with data of the primary government. The City of Elsa, Texas, does not include any blended component units.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Discretely presented component units* – Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City. Discretely presented component units includes the following:

- The Elsa Economic Development Corporation (the “Corporation”) is a Section 4B Non-Profit Economic Development Corporation governed by a seven-member board appointed by the City. The Corporation is funded through a sales tax levy of one half of one percent. The purpose of the Corporation is to promote economic development within the City. The City has a voting majority, imposition of will, financial benefit and financial accountability over the Corporation. The Corporation also maintains a September 30th fiscal year end.
- The Elsa Municipal Development District (the “District”) was created pursuant to the provisions of Chapter 377 of the Texas Local Government Code by a general election. A ¼ cent sales tax was approved by the voters to fund the District’s development projects. The City council appoints all the District’s board members and can remove them at will. Since the City appoints the Board of Directors, the District provides services for the exclusive benefit of the City. The District also maintains a September 30<sup>th</sup> fiscal year end.

The Edcouch-Elsa Independent School District is not part of the City’s reporting entity because the City takes no financial responsibility for them, elected officials of the City do not select their governing authority, the management of the agency is designated independently of the City, the City is not in a position to influence operations and there is no accountability for fiscal matters. Also excluded from the reporting entity is the Housing Authority of Elsa. The Housing Authority is governed by a board of five commissioners, administers 119 units of low-income housing and operates 132 units of Existing Section 8 Leased Housing.

Based on the following criteria, the City determined that the actual degree of oversight is remote, and the financial operations and status of the Housing Authority is not integral to that of the City, thus the relationship of the Housing Authority of the City of Elsa, Texas is best described in a note to the financial statements as follows:

*Ability of Exercise Oversight Responsibility*

The City of Elsa, Texas appoints a member to the Housing Authority and has a moral responsibility for debts. The City of Elsa, Texas has little influence in hiring of management and clerical staff, reviewing and approving budgets, adjustments and amendments, signing contracts, exercising control over facilities and property, and determining the outcome of disposition of matter affecting the service to tenants that receive assistance.

*Scope of Service*

The Housing Authority provides housing for the residents of the City of Elsa, Texas. The Housing Authority operates within the city limits.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C.      SCOPE OF REPORTING ENTITY**

The City has used the criteria detailed in GASB statement No. 14, “*The Financial Reporting Entity* and GASB Statement No. 61, *The Financial Reporting Entity; Omnibus an amendment of GASB Statements No. 14 and No. 34*” to determine whether certain entities should be included in the accompanying financial statements. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Based on these criteria, the City has identified the following as Discretely Presented Component Units.

The City of Elsa, Texas, Economic Improvement Corporation (a nonprofit corporation) services the citizens of the City of Elsa, Texas, by providing financing of economic development objectives and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters.

The City of Elsa, Texas, Elsa Quality Improvement Corporation (a nonprofit corporation) services the citizens of the City of Elsa, Texas by providing financing for the promotion and development of new and expanded business enterprises. Revenues are provided primarily with funds derived from a one-fourth of one percent sales and use tax approved by the voters.

**D.      GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements consist of the statement of net position and the statement of activities, which is a statement of results of operations. These statements report information on all the activities of the reporting entity with the exception of fiduciary activity. Generally, the effect of inter-fund activity has been eliminated from these statements. *Governmental activities*, normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which primarily rely on fees and charges.

The statement of activities reflects the extent to which direct expenses of each function are offset by program revenues. *Direct expenses* are those that are attributable to a specific function and are clearly identifiable. *Program revenues* include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a specific function as well as grants and contributions that are restricted to meeting the operational or capital requirements of a specific function. Taxes and other items not appropriately included with program revenues are shown as *general revenues*.

**E.      FUND FINANCIAL STATEMENTS**

Fund financial statements are used to present more detailed information about the City’s most significant funds. Separate fund financial statements are prepared for governmental funds and proprietary funds. The City has no fiduciary funds. The governmental and proprietary fund financial statements place an emphasis on major funds. Those funds which are determined to be major funds are presented in separate columns, with all nonmajor governmental funds being aggregated and displayed in a single column. Interfund receivable and payable balances and transfers between funds have been eliminated in the fund financial statements.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1        SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The City has reported the following major governmental funds:

General Fund – The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other funds are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid by the General Fund.

American Recovery Plan Act Fund – the American Recovery Plan Act Fund is used to account for resources restricted to or designated for specific purposes by the City or a grantor in a special revenue fund.

Community Center Project Fund – This fund was created to manage the loan proceeds used for constructing a new Community Center. It will be used to pay all related expenses and provide clear visibility of project costs to help ensure the city stays within budget. The City has reported the following major proprietary fund:

Utility Fund - The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

The City has reported the following nonmajor governmental funds:

Debt Service Fund – The fund accounts for taxes collected and the repayment of principal and interest of debt.

Special Revenue Fund – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Capital Projects Fund – The Capital Projects Fund is used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1**      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F.**      **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*; consistent with the presentation of the proprietary fund and fiduciary fund financial statements, with the exception that agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period, except for property taxes, which is 60 days required by GAAP. Expenditures generally are recorded when a liability is incurred, consistent with accrual accounting. However, debt service expenditures, as well as those related to compensated absences and claims and judgments are recognized only when payment is made.

Revenues derived from federal, or state grants are recognized when earned at the end of the current fiscal year and are reflected as due from other governments. Because of their nature, the availability period has a longer duration of six months to a year. Property taxes, sales taxes, franchise 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. Other revenue items are considered to be measurable and available only when cash is received by the government.

**G.**      **BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and debt service fund. The other special revenue funds do not have appropriated budgets since other means control the use of these resources and sometimes span a period of more than one fiscal year.

The appropriated budgets are prepared by fund and function. Any revisions that alter the total appropriations of any fund must be approved by the City Council. All budget amounts presented reflect the original budget and the final amended budget, which has been adjusted for legally authorized revisions or appropriations to the original budgets during the fiscal year. All unencumbered budget appropriations except project budgets, lapse at the end of each fiscal year. The following procedures are used by the City in establishing the budgetary date reflected in the financial statements:

- a. Prior to August 6<sup>th</sup> each year, the City Manager is required to submit a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them.
- b. Advertised public hearings are conducted.
- c. The budget is required to be approved by September 20<sup>th</sup>.
- d. The tax rates are approved after the budget has been approved.
- e. The budget may be amended as considered necessary. The budget and tax rates are enacted through the passage of ordinances.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H.      ENCUMBRANCES**

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding as of September 30, 2024.

**I.      ASSETS, LIABILITIES, AND NET POSITION**

**1.      Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand and demand deposits. Certificates of deposit, U.S. government debt securities, money market funds, and investments in local government investment pools are recorded as investments and are not treated as cash or cash equivalents.

**2.      Investments**

In accordance with provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," investments are reported at fair value, which is determined by market value. Certificates of deposits are reported at carrying amount which reasonable estimates fair value.

**3.      Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are levied. Revenues are recognized as the related ad valorem taxes are collected including those collected 60 days after year-end.

Taxes are prorated between general and debt service funds based on rates adopted for the year of the levy.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1**      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4. Inventories and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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.

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are reflected at estimated fair market value at the date donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Gains or losses on dispositions of capital assets are included in income within the proprietary fund financial statements and in the governmental activities and business-type activities columns of the government-wide financial statements. In the governmental fund financial statements, only the proceeds from the disposition are reported.

Within the proprietary fund, interest cost, less interest earned on investments acquired with proceeds of related borrowing, is capitalized during the construction of capital projects when material. Interest expense is not capitalized on capital assets.

Depreciation of capital assets used by proprietary funds, including those acquired by contributed capital, is charged as an expense against their operation in the fund financial statements as well as the government-wide financial statements. Depreciation of capital assets used by funds categorized as governmental activities is not provided in the fund financial statements, however, is included in the gross expense by function in the government-wide Statement of Activities. Capital assets, net of accumulated depreciation, are reported on the proprietary fund balance sheets in both the governmental activities and business-type activities column of the government-wide statement of net assets.

**CITY OF ELSA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

| Description                | Useful Life         |
|----------------------------|---------------------|
| Buildings and Improvements | 20-40 years         |
| Infrastructure             | 10-50 years         |
| Plants and Improvements    | 10-40 years         |
| Furniture & Equipment      | 3-10 years          |
| Right-of-Use Assets        | Length of Agreement |

As of September 30, 2024, the City has not adhered to the policies listed above. Refer to finding #2024-002 in the Schedule of Findings and Responses of this report. The right-of-use lease asset capitalization level is determined by the Board. The term of the lease must be the non-cancelable period during which the City has the right to use the tangible assets of another entity plus any periods in which either the lessee or the lessor has the sole option to extend the lease if it is reasonably certain the option will be exercised, plus any periods in which either the lessee or the lessor has the sole option to terminate the lease if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a short-term lease under GASB 87. As of December 31, 2023, the City had \$67,890 of right-of-use assets, net.

**6. Accumulated Compensated Absences**

Accumulated unpaid vacations and other employee benefit amounts are accrued when incurred in Proprietary and Governmental Funds.

In Governmental Funds, the primary emphasis is on the flow of financial resources during the year.

In Proprietary Funds, the emphasis is on net income determination and capital maintenance. The method of accounting and financial reporting for compensated absences depends on the measurement focus of the fund in which they are reported. The amount that would be reported as an expenditure in the Governmental Fund would be the total amounts earned in the current period plus amounts from prior periods that, based on experience, will be paid from available expendable resources. The amount recorded in the General Long-Term Debt Accounts Groups would be the amount payable from future resources. Annual leave lapses at the end of the year if not taken in the current year.

**7. Leases**

The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with a length of agreement longer than twelve months. At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1**      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**8. Long-Term Obligations**

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental/business-type activities or the specific proprietary fund to which each relates, as applicable. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**9. Interfund Transactions**

Interfund services provided and used are accounts for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

**10. Estimates**

Preparation of financial statements in conformity with generally accepted accounting principle requires the use of management's estimates. Items for which estimates are necessary include the amount of receivables which may not be collectible, inventory obsolescence, service lines and salvage values of depreciable assets. Estimates also include the likelihood of loss and potential loss amount from contingencies such as litigation. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied on October 1 become delinquent on February 1 of the following calendar year. Property tax revenues are recognized when they become available. The term "available" includes those taxes collected within sixty days of year-end.

The annual tax levy is recorded as a charge to taxes receivable and a credit to deferred revenues, after subtracting that portion estimated to be uncollectible. As taxes are collected monthly, the deferred revenue account is reduced and revenue from tax collections is recognized. Uncollectible taxes are recorded in such a manner to reflect the amount of taxes reasonably estimated to be uncollectible based on prior experience. The annual tax levy is recorded as a charge to taxes receivable and a credit to deferred revenues, after subtracting that portion estimated to be uncollectible. As taxes are collected monthly, the deferred revenue account is reduced and revenue from tax collections is recognized. Uncollectible taxes are recorded in such a manner so as to reflect the amount of taxes reasonably estimated to be uncollectible based on prior experience.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1**      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**11. Fund Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

*Non-spendable*: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Non-spendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

*Restricted*: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed*: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by the resolution of the City Council, the City's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

**12. Minimum Unassigned Fund Balance**

It is the goal of the City to achieve and maintain an unassigned fund balance in the General Fund equal to three months of that year's budgeted expenditures. The City Council may declare a fiscal emergency and withdraw any amount of the unassigned balances for purposes of addressing the fiscal emergency. Any such action must also provide for necessary appropriations to restore the designated fund balance to the balance within a three-year period.

**13. Net Position Flow Assumption**

It is the goal of the City to achieve and maintain an unassigned fund balance in the General Fund equal to three months of that year's budgeted expenditures. The City Council may declare a fiscal emergency and withdraw any amount of the unassigned balances for purposes of addressing the fiscal emergency. Any such action must also provide for necessary appropriations to restore the designated fund balance to the balance within a three-year period.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1**      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**14. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

**15. 457 Plan**

The City has a 457(b) eligible deferred compensation plan to provide benefits to employees. All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust or under one or more annuity contracts described in the Internal Revenue Code Section 401(f). Except as may otherwise be permitted or required by law, no assets or income of the plan shall be used, for or diverted to, purposes other than for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administrations of the plan. In accordance with GASB 97, the plans as amended are not included in the City's financial statements.

**16. Recently Issued and Implemented Accounting Pronouncements**

The GASB has issued the following statement which became effective for fiscal year 2024, and has been implemented:

GASB 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. This Statement amends the existing requirement to disclose the gross increases and decreases in liability for compensated absences to allow governments to disclose only the net change in liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The GASB has issued the following statement which become effective for fiscal year 2025:

GASB Statement No 102, "*Certain Risk Disclosures*"- The objective of this statement is to provide users of government financial statements with essential information about risk related to a government's vulnerabilities due to certain concentrations or constraints, whether by an external party or formal authoritative action by the government. A government is to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 1**      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The GASB has issued the following statements which will become effective for fiscal year 2026:

GASB Statement No. 103, "*Financial Reporting Model Improvements*"- The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues related to Management's Discussion and Analysis, unusual or infrequent items, Net Position of proprietary funds, Major Component Unit Information, and Budgetary Comparison Information.

GASB Statement 104, "*Disclosure of Certain Capital Assets*"- The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets separately in the capital assets note disclosures required by Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

This Statement specifically addresses assets recognized by Statement No. 87, *Leases*, Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement No. 96, *Subscription-Based Information Technology*.

**NOTE 2**      **DEPOSITS AND INVESTMENTS**

**A.      Cash and Cash Equivalents**

Cash and cash equivalents for purposes of the statements of cash flows represent demand accounts and petty cash. Certificates of deposit, U.S. government debt securities, money market funds, and investments in local government investment pools are recorded as investments and are not treated as cash or cash equivalents.

As of September 30, 2024, the carrying amount of the City's deposits (cash) was \$7,001,844 and the bank balance was \$7,082,141. The City maintains cash balances deposited with Texas National Bank. The Federal Deposit Insurance Corporation (FDIC) provides insurance on interest and non-interest-bearing accounts up to \$250,000. As of September 30, 2024, the City's funds that were held in both interest and non-interest-bearing accounts above FDIC coverage limits were not collateralized.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 2      DEPOSITS AND INVESTMENTS (Continued)**

**B.      Investments**

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

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

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

As of September 30, 2024, the City held the following fair value measurements:

Interest Rate Risk. In accordance with its investment policy, the government manages its exposure to declines in fair market values by limiting the average dollar weighted maturity of its investment portfolios to a maximum of 540 days.

Custodial Credit Risk. The City maintains a cash and investment pool that combines cash of the various funds in order to maximize investment opportunities. The City's policy and state statutes require that all deposits in financial institutions be insured by the Federal Depository Insurance Corporation (FDIC) or fully collateralized as per the Public Funds Collateral Act. The City's deposits were fully insured or collateralized as required by state statutes as of September 30, 2024.

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's assets in investments meet the requirements as noted above.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 2      DEPOSITS AND INVESTMENTS (Continued)**

*Liquidity Risk.* The City maintains a credit facility for working capital purposes pursuant to a credit agreement with Texas National Bank. There are various covenants pursuant to the credit agreement that govern activities of the City. The restrictions in the credit agreement may adversely affect the City’s ability to finance its future operations and capital needs and to pursue available business opportunities. Should the City default under the terms of the credit agreement, the credit facility thereunder may become unavailable and may materially reduce the City’s liquidity. There can be no assurance that the City would be able to obtain alternative financing or that such financing would be terms favorable to the City. In addition, the City may not be able to extend, renew, or refinance the credit facility, which would materially and adversely affect the liquidity position, in which case, the City could be forced to sell assets or secure additional financing to make up for any shortfall in its payment obligations under unfavorable circumstances.

**C.      Discretely Presented Component Units**

As of September 30, 2024, the carrying amount of the Municipal Development District and The Economic Development Corporation’s deposits (cash) was \$682,878 and the bank balance was \$692,557 all of which is unrestricted. The Federal Deposit Insurance Corporation (FDIC) provides insurance on interest and non-interest-bearing accounts up to \$250,000 as of September 30, 2024, the MDD’s funds that were held in both interest and non-interest-bearing accounts.

**NOTE 3      AD VALOREM PROPERTY TAXES**

Property taxes are levied on October 1 based on assessed value of property as of January 1, for all real and personal property located in the City. Taxes are due in January of the following year and become delinquent on February 1. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately impose.

Ad valorem taxes of \$2,188,969 were assessed on property values totaling \$277,189,946 using a tax rate of \$0.7897 (\$0.5767 for general operations and \$0.2130 for debt service) per \$100 assessed value.

Appraised values are determined by the Hidalgo County Appraisal District; approved by the Hidalgo County Appraisal Review Board; and certified by the Chief Appraiser. The city does not offer a discount on early payment of taxes. The City’s taxes are billed and collected by the Hidalgo County Tax Assessor Collector.

**NOTE 4      DISAGGREGATION OF RECEIVABLES**

Receivables are recorded net of allowance for uncollectible accounts as of September 30, 2024, as summarized by the following table:

| Description                       | Taxes<br>Receivable | Accounts<br>Receivable, Net | Due From Other<br>Funds | Due From Other<br>Governments | Total        |
|-----------------------------------|---------------------|-----------------------------|-------------------------|-------------------------------|--------------|
| General Fund                      | \$ 469,929          | \$ 3,727,921                | \$ 551,177              | \$ 6,545                      | \$ 4,755,572 |
| Interest and Sinking              | 200,984             | -                           | -                       | -                             | 200,984      |
| Pacific Trails Fund               | -                   | -                           | 2,719                   | -                             | 2,719        |
| Total Receivables                 | 670,913             | 3,727,921                   | 553,896                 | 6,545                         | 4,959,275    |
| Less: Allowance for Uncollectible | (222,552)           | (2,471,782)                 | -                       | -                             | (2,694,334)  |
| Total Receivables, Net            | \$ 448,361          | \$ 1,256,139                | \$ 553,896              | \$ 6,545                      | \$ 2,264,941 |

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 5      DISAGGREGATION OF PAYABLES**

Payables as of September 30, 2024, are summarized by the following table:

| Description           | Payroll<br>Liabilities | Due to Other Funds | Customer<br>Deposits | Total            |
|-----------------------|------------------------|--------------------|----------------------|------------------|
| General Fund          | \$ 38,437              | \$ -               | \$ 2,800             | \$ 41,237        |
| 2022 HUD Project      | -                      | 6,122              | -                    | 6,122            |
| Pacific Trails Fund   | -                      | 16,000             | -                    | 16,000           |
| <b>Total Payables</b> | <b>\$ 38,437</b>       | <b>\$ 22,122</b>   | <b>\$ 2,800</b>      | <b>\$ 63,359</b> |

**NOTE 6      UNEARNED REVENUES**

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

The City's unearned revenues as of September 30, 2024, are summarized by the following table:

| Description                    | Deferred<br>Revenue | Total            |
|--------------------------------|---------------------|------------------|
| American Recovery Plan Act     | \$ 95,550           | \$ 95,550        |
| <b>Total Unearned Revenues</b> | <b>\$ 95,550</b>    | <b>\$ 95,550</b> |

The City's deferred inflows of resources as of September 30, 2024, are summarized by the following table:

| Description                   | Property Tax      | Total             |
|-------------------------------|-------------------|-------------------|
| General Fund                  | \$ 337,334        | \$ 337,334        |
| Interest and Sinking          | 111,027           | 111,027           |
| <b>Total Deferred Inflows</b> | <b>\$ 448,361</b> | <b>\$ 448,361</b> |

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 7      CAPITAL ASSETS**

Capital Assets for Governmental Activities as of September 30, 2024, are as follows:

| Description                                 | Balance<br>October 1, 2023 | Additions    | Retirements | Balance<br>September 30, 2024 |
|---|----------------------------|--------------|-------------|-------------------------------|
| Governmental Activities:                    |                            |              |             |                               |
| Capital Assets, not being depreciated:      |                            |              |             |                               |
| Land  | \$ 154,191                 | \$ -         | \$ -        | \$ 154,191                    |
| Total Capital assets, not being depreciated | 154,191                    | -            | -           | 154,191                       |
| Capital Asset being depreciated:            |                            |              |             |                               |
| Buildings                                   | 1,595,168                  | 66,066       | -           | 1,661,234                     |
| Furniture and Equipment                     | 3,814,479                  | 155,660      | -           | 3,970,139                     |
| Infrastructure                              | 2,851,636                  | 1,002,095    | -           | 3,853,731                     |
| Right-of-Use Assets                         | 213,846                    | -            | -           | 213,846                       |
| Total capital assets, being depreciated     | 8,475,129                  | 1,223,822    | -           | 9,698,951                     |
| Less accumulated depreciation for:          |                            |              |             |                               |
| Buildings                                   | (86,007)                   | -            | -           | (86,007)                      |
| Furniture and Equipment                     | (1,519,140)                | -            | -           | (1,519,140)                   |
| Infrastructure                              | (1,529,044)                | -            | -           | (1,529,044)                   |
| Right-of-Use Assets                         | (74,667)                   | (71,289)     | -           | (145,956)                     |
| Total accumulated depreciation              | (3,208,858)                | (71,289)     | -           | (3,280,147)                   |
| Total capital assets being depreciated, net | 5,266,271                  | 1,152,533    | -           | 6,418,804                     |
| Capital Assets, Net                         | \$ 5,420,462               | \$ 1,152,533 | \$ -        | \$ 6,572,995                  |

Capital Assets for Business-Type Activities as of September 30, 2024, are as follows:

| Description                                 | Balance<br>October 1, 2023 | Additions | Retirements | Balance<br>September 30, 2024 |
|---|----------------------------|-----------|-------------|-------------------------------|
| Business-Type Activities:                   |                            |           |             |                               |
| Capital Assets, not being depreciated:      |                            |           |             |                               |
| Land  | \$ 13,046                  | \$ -      | \$ -        | \$ 13,046                     |
| Total Capital assets, not being depreciated | 13,046                     | -         | -           | 13,046                        |
| Capital Assets being depreciated:           |                            |           |             |                               |
| Furniture and Equipment                     | 854,257                    | 7,664     | -           | 861,921                       |
| Infrastructure                              | 18,944,582                 | -         | -           | 18,944,582                    |
| Total capital assets, being depreciated     | 19,798,839                 | 7,664     | -           | 19,806,504                    |
| Less: Accumulated Depreciation              |                            |           |             |                               |
| Total accumulated depreciation              | (5,537,098)                | -         | -           | (5,537,098)                   |
| Total capital assets being depreciated, net | 14,261,741                 | 7,664     | -           | 14,269,406                    |
| Capital Assets, Net                         | \$ 14,274,787              | \$ 7,664  | \$ -        | \$ 14,282,452                 |

Depreciation and amortization were charged to business-type activity as due to the following:

The City's perpetual records do not accurately reflect the capital assets on hand and accumulated depreciation for current year ending September 30, 2024, Refer to finding #2024-001 in the Schedule of Findings and Responses of this report.

**CITY OF ELSA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 8      INTERFUND TRANSFERS AND BALANCES**

Interfund balances as of September 30, 2024, consisted of the following individual fund balances:

|   | Due from Other<br>Funds | Due to Other<br>Funds |
|---|-------------------------|-----------------------|
| <b><u>Governmental Activities</u></b>   |                         |                       |
| General Fund:                           |                         |                       |
| 2022 HUD Project                        | \$ 6,122                | \$ -                  |
| Pacific Trails                          | 5,000                   | -                     |
| Enterprise Fund                         | 540,055                 | -                     |
| Total General Fund                      | 551,177                 | -                     |
| Pacific Trails Fund:                    |                         |                       |
| General Fund                            | -                       | 5,000                 |
| 4B Economic Development                 | 2,719                   | 11,000                |
| Total Pacific Trails Fund               | 2,719                   | 16,000                |
| 2022 HUD Project:                       |                         |                       |
| General Fund                            | -                       | 6,122                 |
| Total 2022 HUD Project                  | -                       | 6,122                 |
| Total Governmental Activities           | \$ 553,896              | \$ 22,122             |
| <b><u>Business-Type Activities</u></b>  |                         |                       |
| Enterprise Fund:                        |                         |                       |
| General Fund                            | -                       | 540,055               |
| Total Enterprise Fund                   | -                       | 540,055               |
| <b><u>Component Unit Activities</u></b> |                         |                       |
| 4B Economic Development Fund:           |                         |                       |
| Pacific Trails                          | 11,000                  | 2,719                 |
| Total 4B Economic Development Fund      | 11,000                  | 2,719                 |
| Total Interfund Balances                | \$ 564,896              | \$ 564,896            |

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 8**      **INTERFUND TRANSFERS AND BALANCES (CONTINUED)**

Interfund transfers are generally short-term loans to cover temporary cash flows and reimbursements for various funds. The City's interfund transfers during the year ended September 30, 2024, are summarized as follows:

|   | Transfers In   | Transfers Out  |
|---|----------------|----------------|
| <b><u>Governmental Activities</u></b>   |                |                |
| General Fund:                           |                |                |
| Municipal Development District          | \$ 294,626     | \$ -           |
| Total General Fund                      | 294,626        | -              |
| Pacific Trails Fund:                    |                |                |
| Municipal Development District          | 45,000         | -              |
| 4B Economic Development Fund:           | 328,763        | -              |
| Total Pacific Trails Fund               | 373,763        | -              |
| 2022 HUD Project:                       |                |                |
| Municipal Development District          | 20,800         | -              |
| Total 2022 HUD Project                  | 20,800         | -              |
| <br>Total Governmental Activities       | <br>\$ 689,189 | <br>\$ -       |
| <b><u>Component Unit Activities</u></b> |                |                |
| Municipal Development District:         |                |                |
| General Fund                            | -              | 294,626        |
| 2022 HUD Project                        | -              | 20,800         |
| Pacific Trails                          | -              | 45,000         |
| Total Municipal Development District    | -              | 360,426        |
| 4B Economic Development Fund:           |                |                |
| Pacific Trails                          | -              | 328,763        |
| Total 4B Economic Development Fund      | -              | 328,763        |
| <br>Total Interfund Balances            | <br>\$ 689,189 | <br>\$ 689,189 |

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 9      LONG-TERM DEBT**

The following table summarizes the City’s long-term debt obligations for governmental activities as of September 30, 2024:

| <u>Description</u>                     | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Issuance Amount</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due in One Year</u> |
|--|----------------------|----------------------|------------------------|--------------------------|------------------|-------------------|-----------------------|------------------------|
| <b>Governmental Activities:</b>        |                      |                      |                        |                          |                  |                   |                       |                        |
| <i>Bonds Payable</i>                   |                      |                      |                        |                          |                  |                   |                       |                        |
| Certificate of Obligation, Series 2024 | 4.45%                | 2039                 | 5,000,000              | \$ -                     | \$ 5,000,000     |                   | \$ 5,000,000          | \$ 50,000              |
| <b>Total Bonds Payable</b>             |                      |                      |                        | -                        | 5,000,000        | -                 | 5,000,000             | 50,000                 |
| <i>Notes Payable</i>                   |                      |                      |                        |                          |                  |                   |                       |                        |
| Tax Notes, Series 2023                 | 6.22%                | 2027                 | 800,000                | 710,000                  | -                | (160,000)         | 550,000               | 170,000                |
| <b>Total Notes Payable</b>             |                      |                      |                        | 710,000                  | -                | (160,000)         | 550,000               | 170,000                |
| <i>Leases Payable</i>                  |                      |                      |                        |                          |                  |                   |                       |                        |
| Copier Lease                           | 7.50%                | 2025                 | 277,424                | 109,084                  | -                | (60,581)          | 48,503                | 48,503                 |
| Phone System Lease                     | 7.50%                | 2026                 | 38,653                 | 22,342                   | -                | (7,878)           | 14,464                | 8,469                  |
| Folding Machine Lease                  | 7.50%                | 2028                 | 13,804                 | 7,753                    | -                | (2,831)           | 4,922                 | 3,043                  |
| <b>Total Leases Payable</b>            |                      |                      |                        | 139,179                  | -                | (71,289)          | 67,890                | 60,014                 |
| <i>Financed Purchases</i>              |                      |                      |                        |                          |                  |                   |                       |                        |
| Prosperity Bank                        | 4.59%                | 2029                 | 480,305                | 304,857                  | -                | (304,857)         | -                     | -                      |
| KS State Bank                          | 4.40%                | 2025                 | 251,387                | 161,950                  | -                | (78,278)          | 83,672                | 83,672                 |
| <b>Total Financed Purchases</b>        |                      |                      |                        | 466,807                  | -                | (383,135)         | 83,672                | 83,672                 |
| Total Governmental Activities          |                      |                      |                        | \$ 1,315,986             | \$ 5,000,000     | \$ (614,425)      | \$ 5,701,561          | \$ 363,686             |

The following table summarizes the City’s long-term debt obligations for component unit activities as of September 30, 2024:

| <u>Description</u>                | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Issuance Amount</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due in One Year</u> |
|-----------------------------------|----------------------|----------------------|------------------------|--------------------------|------------------|-------------------|-----------------------|------------------------|
| <b>Component Unit Activities:</b> |                      |                      |                        |                          |                  |                   |                       |                        |
| <i>Notes Payable</i>              |                      |                      |                        |                          |                  |                   |                       |                        |
| Texas National Bank LOC           | 7.50%                | 2025                 | 519,648                | \$ 207,346               | \$ 312,302       | \$ (138,518)      | \$ 381,130            | \$ 381,130             |
| <b>Total Notes Payable</b>        |                      |                      |                        | 207,346                  | 312,302          | (138,518)         | 381,130               | 381,130                |
| Total Component Unit Activities   |                      |                      |                        | \$ 207,346               | \$ 312,302       | \$ (138,518)      | \$ 381,130            | \$ 381,130             |

**Governmental Activities:**

The City’s annual long-term debt requirements as of September 30, 2024, are summarized as shown by the following table:

| Year Ending<br>September 30, | Principal           | Interest            | Total               |
|------------------------------|---------------------|---------------------|---------------------|
| 2025                         | \$ 363,686          | \$ 249,694          | \$ 613,380          |
| 2026                         | 312,875             | 220,275             | 533,150             |
| 2027                         | 335,000             | 214,935             | 549,935             |
| 2028                         | 305,000             | 208,705             | 513,705             |
| 2029                         | 320,000             | 195,133             | 515,133             |
| 2030-2034                    | 1,810,000           | 750,715             | 2,560,715           |
| 2035-2039                    | 2,255,000           | 309,498             | 2,564,498           |
| <b>Total</b>                 | <b>\$ 5,701,561</b> | <b>\$ 2,148,954</b> | <b>\$ 7,850,516</b> |

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 9      LONG-TERM DEBT (Continued)**

Bonds Payable

The City received a Certificate of Obligation, Series 2024 for \$5,000,000 in June 2024 from Amegy Bank. The bond has an interest rate of 4.45%, payable on September and March 1 of each year, commencing September 1, 2025, and has a maturity date of September 1, 2034. The bond proceeds were deposited to the Community Center Project Fund.

The City's annual long-term bonds payable requirements as of September 30, 2024, are summarized as shown by the following table:

| Year Ending<br>September 30, | Principal    | Interest     | Total        |
|------------------------------|--------------|--------------|--------------|
| 2025                         | \$ 50,000    | \$ 249,694   | \$ 299,694   |
| 2026                         | 120,000      | 220,275      | 340,275      |
| 2027                         | 140,000      | 214,935      | 354,935      |
| 2028                         | 305,000      | 208,705      | 513,705      |
| 2029                         | 320,000      | 195,133      | 515,133      |
| 2030-2034                    | 1,810,000    | 750,715      | 2,560,715    |
| 2035-2039                    | 2,255,000    | 309,498      | 2,564,498    |
| Total                        | \$ 5,000,000 | \$ 2,148,954 | \$ 7,148,954 |

Notes Payable:

The City of Elsa, Texas, received a Tax Note, Series 2023 for \$800,000 in July of 2023 from Frost Bank. The tax note has an interest rate of 6.22%, payable on September 1 and March 1 of each year, commencing on September 1, 2023, and has a maturity date of 2027. The tax note is payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the City.

The City's annual long-term note payable requirements as of September 30, 2024, are summarized as shown by the following table:

| Year Ending<br>September 30, | Principal  | Interest  | Total      |
|------------------------------|------------|-----------|------------|
| 2025                         | \$ 170,000 | \$ 31,567 | \$ 201,567 |
| 2026                         | 185,000    | 20,759    | 205,759    |
| 2027                         | 195,000    | 9,097     | 204,097    |
| Total                        | \$ 550,000 | \$ 61,423 | \$ 611,423 |

The City has entered into lease agreements as a lessee for financing the acquisition of vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded as the present value of future minimum lease payments as of the date of inception. The City accounts for amortization expense related to the capital leases as depreciation expense. The City also currently has purchase options for some of the equipment they are currently leasing.

**CITY OF ELSA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 9      LONG-TERM DEBT (Continued)**

The City’s annual long-term lease payable requirements as of September 30, 2024, are summarized as shown by the following table:

| Year Ending<br>September 30, | Principal | Interest | Total     |
|------------------------------|-----------|----------|-----------|
| 2025                         | \$ 60,014 | \$ 2,557 | \$ 62,571 |
| 2026                         | 7,875     | 210      | 8,085     |
| Total                        | \$ 67,889 | \$ 2,767 | \$ 70,656 |

Copier Lease

The City entered into an agreement to lease copiers for different departments throughout the city. The lease agreement qualifies as other short-term leases under GASB 87 Leases and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The agreement is for 60 months beginning June 9, 2020, at \$5,559 per month. Lease liability is measured using a discount rate of 7.5%.

Phone System Lease

The City entered into an agreement to lease a phone system for different departments throughout the city. The lease agreement qualifies as other short-term leases under GASB 87 Leases and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The agreement is for 60 months beginning August 2018 at \$770 per month. Lease liability is measured using a discount rate of 7.5%.

Folding Machine Lease

The City entered into an agreement to lease a folding machine. The lease agreement qualifies as other short-term leases under GASB 87 Leases and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The agreement is for 60 months beginning August 2018 at \$275 per month. Lease liability is measured using a discount rate of 7.5%.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 9      LONG-TERM DEBT (Continued)**

**Financed Purchases**

Government Capital

The City of Elsa, Texas, has financed the acquisition of vehicles with Prosperity Bank. The City entered into a lease agreement as lessee for financing the acquisition of the truck in the amount of \$480,305 on July of 2019. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future lease payments as of the inception date. The outstanding balance as of September 30, 2024, is \$83,672.

The City’s annual long-term financed purchase payable requirements as of September 30, 2024, are summarized as shown by the following table:

| Year Ending<br>September 30, | Principal | Interest | Total     |
|------------------------------|-----------|----------|-----------|
| 2025                         | \$ 83,672 | \$ 5,765 | \$ 89,437 |
| Total                        | \$ 83,672 | \$ 5,765 | \$ 89,437 |

**Component Unit Activities:**

Texas National Bank

The Economic Development Corporation entered into a loan agreement for the development of the Pacific Trails Project. Funds will be borrowed/drawn on a “as needed” basis, and payments will be made throughout the loan period. Payments will be made based on amounts drawn. Loan agreement dated March 1, 2022, and final payments to be made on March 30, 2027. As of September 30, 2024, the principal amount outstanding was \$381,130.

**NOTE 10      COMMITMENTS AND CONTINGENCIES**

The City is currently involved in litigation claims against it that are generally incidental to its operations. However, it is the opinion of the City’s management that the City’s liability in those cases that are not covered by liability insurance will not be material to the financial statements. Accordingly, no provision has been made in the financial statements for these contingent liabilities.

The City received a substantial portion of its financial resources in the form of state and federal grants. Expenditure of such funds generally requires compliance with terms and conditions specified in the grant agreement. These funds are also subject to the grantor agency. Any disallowed costs resulting from such an audit could become the responsibility of the City and repayment could be requested from nonfederal resources.

**NOTE 11      RISK MANAGEMENT**

The City is exposed to various uncertainties for losses related to intentional and unintentional torts; theft of damage to and destruction of real and personal property; errors-and-omissions; catastrophes, medical and dental claims by employees; employee illnesses and injuries and pollution claims for which the City carries commercial insurance coverage. There have been no significant reductions in insurance coverage from the previous year. No negotiated settlements or jury awards have exceeded policy limits in any of the past three years. City management is not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

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**CITY OF ELSA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**NOTE 12      COMPLIANCE AND ACCOUNTABILITY**

**A. Finance-Related Legal and Contractual Provisions**

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

| <u>Violation</u> | <u>Action Taken</u> |
|------------------|---------------------|
| None Reported    | Not applicable.     |

**B. Excess of expenditures over appropriations**

The following is a list of the excess of expenditures over appropriations, at the legal control by an individual fund:

| <u>Fund Name</u> | <u>Department/Expenditure</u> | <u>Amount of Excess</u> |
|------------------|-------------------------------|-------------------------|
| General          | General Government            | \$     1,102,736        |

**NOTE 13      SUBSEQUENT EVENTS**

The City has evaluated events and transactions for potential recognition or disclosure through April 11, 2025, the date the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF ELSA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET TO ACTUAL**  
**For the Year Ended September 30, 2024**

|   | <u>Budgeted Amounts</u> |                     | <u>Budgetary</u>              | <u>Variances</u>                         |
|---|-------------------------|---------------------|-------------------------------|--|
|   | <u>Original</u>         | <u>Final</u>        | <u>Basis</u><br><u>Actual</u> | <u>Favorable</u><br><u>(Unfavorable)</u> |
| <b>REVENUES</b>                             |                         |                     |                               |  |
| Property Taxes                              | \$ 1,621,892            | \$ 1,621,892        | \$ 1,513,957                  | (107,935)                                |
| General Sales and Use Taxes                 | 1,171,165               | 1,171,165           | 1,400,077                     | 228,912                                  |
| Franchise Tax                               | 270,259                 | 270,259             | 226,437                       | (43,822)                                 |
| Penalty and Interest on Taxes               | 194,580                 | 194,580             | 51,163                        | (143,417)                                |
| Licenses and Permits                        | 105,131                 | 105,131             | 197,168                       | 92,037                                   |
| Intergovernmental Revenue and Grants        | 48,907                  | 48,907              | 450,130                       | 401,223                                  |
| Charges for Services                        | 1,235,230               | 1,235,230           | 1,105,678                     | (129,552)                                |
| Other Revenue                               | 380,389                 | 380,389             | 422,363                       | 41,974                                   |
| <b>TOTAL REVENUES</b>                       | <u>5,027,553</u>        | <u>5,027,553</u>    | <u>5,366,974</u>              | <u>339,420</u>                           |
| <b>EXPENDITURES</b>                         |                         |                     |                               |  |
| General Government                          | 2,361,279               | 2,361,279           | 3,464,015                     | (1,102,736)                              |
| Public Safety                               | 1,610,886               | 1,610,886           | 1,097,474                     | 513,412                                  |
| Public Works                                | 689,787                 | 689,787             | 635,005                       | 54,782                                   |
| Health and Welfare                          | 127,290                 | 127,290             | 105,700                       | 21,590                                   |
| Culture and Recreation                      | 238,311                 | 238,311             | 159,346                       | 78,965                                   |
| Principal on Debt                           | -                       | -                   | 63,412                        | (63,412)                                 |
| Interest on Debt                            | -                       | -                   | 14,197                        | (14,197)                                 |
| Capital Outlay                              | -                       | -                   | 313,480                       | (313,480)                                |
| <b>TOTAL EXPENDITURES</b>                   | <u>5,027,553</u>        | <u>5,027,553</u>    | <u>5,852,629</u>              | <u>(825,076)</u>                         |
| <b>EXCESS (DEFICIENCY) OF REVENUES</b>      |                         |                     |                               |  |
| <b>OVER EXPENDITURES</b>                    | <u>-</u>                | <u>-</u>            | <u>(485,655)</u>              | <u>(485,655)</u>                         |
| <b>OTHER FINANCING SOURCES (USES)</b>       |                         |                     |                               |  |
| Transfers In/Out                            | <u>-</u>                | <u>-</u>            | <u>294,626</u>                | <u>294,626</u>                           |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b> | <u>-</u>                | <u>-</u>            | <u>294,626</u>                | <u>294,626</u>                           |
| <b>NET CHANGE IN FUND BALANCES</b>          | <u>-</u>                | <u>-</u>            | <u>(191,029)</u>              | <u>(191,029)</u>                         |
| Fund Balance at Beginning of Period         | <u>\$ 1,539,719</u>     | <u>\$ 1,539,719</u> | <u>\$ 1,539,719</u>           | <u>\$ 1,539,719</u>                      |
| Fund Balance at End of Period               | <u>\$ 1,539,719</u>     | <u>\$ 1,539,719</u> | <u>\$ 1,348,690</u>           | <u>\$ (191,029)</u>                      |

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

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**SUPPLEMENTARY INFORMATION  
SECTION**

City of Elsa  
Combining Balance Sheet - Nonmajor Governmental Funds  
September 30, 2024

|  | <u>Special Revenue</u>                    | <u>Debt Service</u>                  | <u>Capital Projects</u>    |                                  |
|--|---|--------------------------------------|----------------------------|----------------------------------|
|  | <u>2022 HUD Project<br/>Funding Grant</u> | <u>Interest and<br/>Sinking Fund</u> | <u>Pacific Trails Fund</u> | <u>Total Non-Major<br/>Funds</u> |
| <b>ASSETS:</b>   |   |                                      |                            |                                  |
| 1010 Cash and Cash Equivalents                                     | \$ 6,122                                  | \$ 226,891                           | \$ 88,911                  | \$ 321,924                       |
| 1050 Taxes Receivable, Net   | -   | 111,027                              | -                          | 111,027                          |
| 1300 Due from Other Funds  | -   | -                                    | 2,719                      | 2,719                            |
| <b>TOTAL ASSETS</b>  | <b>6,122</b>                              | <b>337,918</b>                       | <b>91,630</b>              | <b>435,670</b>                   |
| <b>LIABILITIES:</b>  |   |                                      |                            |                                  |
| 2080 Due to Other Funds  | 6,122                                     | -                                    | 16,000                     | 22,122                           |
| <b>TOTAL LIABILITIES</b>   | <b>6,122</b>                              | <b>-</b>                             | <b>16,000</b>              | <b>22,122</b>                    |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                              |   |                                      |                            |                                  |
| 2601 Deferred Resource Inflow - Property Taxes                     | -   | 111,027                              | -                          | 111,027                          |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                         | <b>-</b>                                  | <b>111,027</b>                       | <b>-</b>                   | <b>111,027</b>                   |
| <b>FUND BALANCES:</b>  |   |                                      |                            |                                  |
| Restricted for:  |   |                                      |                            |                                  |
| 3006 Debt Service  | -   | 226,891                              | -                          | 226,891                          |
| 3007 Capital Projects  | -   | -                                    | 75,630                     | 75,630                           |
| <b>TOTAL FUND BALANCES</b>   | <b>-</b>                                  | <b>226,891</b>                       | <b>75,630</b>              | <b>302,521</b>                   |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS &amp;<br/>FUND BALANCES</b> | <b>\$ 6,122</b>                           | <b>\$ 337,918</b>                    | <b>\$ 91,630</b>           | <b>\$ 435,670</b>                |

City of Elsa  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2024**

|  | Special Revenue                             | Debt Service                 | Capital Project     | Total Non-Major  |
|--|---|------------------------------|---------------------|------------------|
|  | 2022 HUD Project<br>Funding Grant           | Interest and<br>Sinking Fund | Pacific Trails Fund | Funds            |
| <b>REVENUES:</b>                           |   |                              |                     |                  |
| Taxes:                                     |   |                              |                     |                  |
| 5110                                       | Property Taxes                              | \$ -                         | \$ 556,481          | \$ 556,481       |
| 5190                                       | Penalty and Interest on Taxes               | -                            | 19,555              | 19,555           |
| 5300                                       | Intergovernmental Revenue and Grants        | -                            | 193,835             | 193,835          |
|  | <b>TOTAL REVENUES</b>                       | <b>-</b>                     | <b>576,036</b>      | <b>769,871</b>   |
| <b>EXPENDITURES:</b>                       |   |                              |                     |                  |
| Current:                                   |   |                              |                     |                  |
| 100  | General Government                          | 20,800                       | -                   | 20,800           |
| Debt Service:                              |   |                              |                     |                  |
| 710  | Principal on Debt                           | -                            | 551,013             | 551,013          |
| 720  | Interest on Debt                            | -                            | 97,697              | 97,697           |
| 800  | Capital Outlay                              | -                            | 510,042             | 510,042          |
|  | <b>TOTAL EXPENDITURES</b>                   | <b>20,800</b>                | <b>648,710</b>      | <b>1,179,552</b> |
| Excess(Deficiency) of Revenues Over(Under) |   |                              |                     |                  |
|  | Expenditures                                | (20,800)                     | (72,674)            | (316,207)        |
| <b>OTHER FINANCING SOURCES (USES):</b>     |   |                              |                     |                  |
| 7915                                       | Transfers In                                | 20,800                       | -                   | 394,563          |
|  | <b>TOTAL OTHER FINANCING SOURCES (USES)</b> | <b>20,800</b>                | <b>-</b>            | <b>394,563</b>   |
|  | Net Change in Fund Balances                 | \$ -                         | \$ (72,674)         | \$ 57,556        |
| 3600                                       | Fund Balance - Beginning                    | \$ -                         | \$ 299,565          | \$ 317,639       |
| 3900                                       | Fund Balance - Ending                       | \$ -                         | \$ 226,891          | \$ 302,521       |

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# **INTERNAL CONTROL/COMPLIANCE SECTION**

# ADRIAN WEBB, CPA

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Certified Public Accountant  
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*

Independent Auditor's Report

To the City Commission of  
City of Elsa, 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, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elsa, Texas, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Elsa, Texas' basic financial statements and have issued our report thereon dated April 11, 2025.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Elsa'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 City of Elsa's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Elsa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2024-002, to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Elsa' 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 statement. 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*.

## **City of Elsa' Response to Findings**

City of Elsa, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Elsa, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 result 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

# ADRIAN WEBB, CPA

Certified Public Accountant  
Edinburg, Texas

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the City Commission of  
City of Elsa, Texas

### Report on Compliance for Each Major Federal Program

#### Opinion on Each Major Federal Program

We have audited the City of Elsa, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Elsa, Texas' major federal programs for the year ended September 30, 2024. City of Elsa, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Elsa, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2024.

#### Basis for Opinion on Each Major Federal Program

Our responsibility is to express an opinion on compliance for each of the City of Elsa, Texas major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Elsa, Texas compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We are required to be independent of the City of Elsa, Texas and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Elsa, Texas' compliance with the compliance requirements referred to above.

#### Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Elsa, Texas' federal programs.

### ***Auditor's responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Elsa' compliance based on our audit. 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 accounting standards, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City of Elsa, Texas' compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Elsa, Texas' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Elsa, Texas' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Elsa, Texas' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Report on Internal Control over Compliance***

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Adrian Webb, CPA*

ADRIAN WEBB, CPA

Edinburg, Texas

April 11, 2025

**CITY OF ELSA, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**I. Summary of the Auditor’s Results:**

**FINANCIAL SECTION:**

- |   |                   |
|---|-------------------|
| A. The type of report issued:   | Qualified Opinion |
|   |                   |
| B. Internal control over financial statements:  |                   |
| Material Weaknesses identified?   | Yes               |
| Significant Deficiencies identified which<br>were not considered material weaknesses? | Yes               |
| C. Noncompliance material to the financial statements noted?                          | No                |

**FEDERAL AWARDS SECTION:**

- |  |            |
|--|------------|
| D. The type of report issued:  | Unmodified |
|  |            |
| E. Internal control over Major Programs:   |            |
| Material Weakness identified?  | No         |
| Significant Deficiency identified which<br>were not considered material weaknesses?                          | No         |
| F. Any audit findings disclosed that are required to be<br>Reported in Accordance with the Uniform Guidance? | No         |
| G. Identification of Major Programs:<br>21.027 American Rescue Plan Act                                      |            |
| H. Dollar Threshold to distinguish between Type A and Type B:  | \$750,000  |
| I. Audit qualifies as a low-risk auditee:  | No         |

**CITY OF ELSA, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards:**

**2024-001 Capital Assets**

Criteria: Generally accepted accounting principles of the United States of America require that general infrastructure assets of the Governmental and Proprietary Funds be capitalized and depreciated.

Condition: The City has an incomplete set of records for the General Fund Capital Assets and Proprietary Fund Capital Assets. The City did not provide sufficient audit documentation to confirm the value of the capital assets.

Effect: The City's financial statements include capital assets valuations that are not accurate or reliable.

Recommendation: The City should perform a comprehensive physical inventory of all capital assets for both the governmental and proprietary fund types. This would also include an annual calculation of depreciation expense and accumulated depreciation based on the useful life of the related capital asset.

Auditee's Response: The City will follow the recommendation noted by the Auditor.

**2024-002 Expenditures in Excess of Budget Appropriations**

Criteria: The City should monitor expenditures to ensure that sufficient budget amounts exist for each budget category prior to approval of expenditures.

Condition: As indicated in the notes to the financial statements, we noted instances in which the City's budget has been exceeded in various categories.

Effect: The City incurred expenditures that were not budgeted, or amounts approved by the City Commission for the fiscal year ended September 30, 2024.

Recommendation: Budget versus actual comparisons should be made on a monthly basis, and control over expenditures should include a review of available budget amounts prior to approval of expenditures.

Auditee's Response: The City will follow the recommendation noted by the Auditor.

**CITY OF ELSA, TEXAS  
SCHEDULE OF PRIOR FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

**2023-001 Controls over Reporting of Financial Information to State Agency**

Criteria: Texas Local Government Code 103.003 requires that the City completes the annual audit within 180 days of the close of the fiscal year.

Condition: A copy of the annual audit report was not approved by the Board of Commissioners and was not filed by the City with the State before the 180th day after the end of the fiscal year for which the audit was conducted.

Status: Corrected

**2023-002 Capital Assets**

Criteria: Generally accepted accounting principles of the United States of America require that general infrastructure assets of the Governmental and Proprietary Funds be capitalized and depreciated.

Condition: The City has an incomplete set of records for the General Capital Assets and Proprietary Fund Capital Assets. The City did not provide sufficient audit documentation to confirm the value of the capital assets.

Status: See Current Year Findings.

**2023-003 Expenditures in Excess of Budget Appropriations**

Criteria: The City should monitor expenditures to ensure that sufficient budget amounts exist for each budget category prior to approval of expenditures.

Condition: As indicated in the notes to the financial statements, we noted instances in which the City's budget has been exceeded in various categories.

Status: See Current Year Findings.

**CITY OF ELSA, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports."

**2024-001 – Capital Assets**

*Corrective Action Plan*

The City will continue updating fixed asset listing and policies until it reaches an acceptable level of compliance regarding this finding. The establishment of this database will provide a source for the City's fixed assets.

*Proposed Completion Date* – September 30, 2025

*Contact Person* – Juanita Maciel-Collins, Finance Director

**2024-002 – Expenditures in Excess of Budget Appropriations**

*Corrective Action Plan*

The City will review budget versus actual financial reports on a monthly basis and make budget amendments on an "as needed" basis.

*Proposed Completion Date* – September 30, 2025

*Contact Person* – Juanita Maciel-Collins, Finance Director

**CITY OF ELSA, TEXAS**  
Schedule of Expenditures of Federal Awards  
For the Year ended September 30, 2024

| <b>Federal Grantor/<br/>Pass-Through Grantor/Program Title</b> | <b>Assistance<br/>Listing Number</b> | <b>Pass-Through Entity<br/>Identifying Number</b> | <b>Federal<br/>Expenditures</b> |
|--|--------------------------------------|---|---------------------------------|
| <b><u>U.S. Department of Homeland Security</u></b>             |                                      |   |                                 |
| Assistance to Firefighters Grant                               | 97.044                               | EMW-2021-FG-12050                                 | \$ 319,887                      |
| Assistance to Firefighters Grant                               | 97.044                               | EMW-2021-FG-07633                                 | <u>59,749</u>                   |
| <b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>              |                                      |   | <u>379,635</u>                  |
| <b><u>U.S. Department of the Treasury</u></b>                  |                                      |   |                                 |
| Coronavirus State and Local Fiscal Recovery Funds              | 21.027                               | 1505-AC77   | <u>706,904</u>                  |
| <b>TOTAL U.S. Department of the Treasury</b>                   |                                      |   | <u>706,904</u>                  |
| <b>Total Expenditures of Federal Awards</b>                    |                                      |   | <u><u>\$ 1,086,539</u></u>      |

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CITY OF ELSA, TEXAS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2024

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying schedule of expenditures of federal award (the Schedule”) includes the federal grant activity of City of Elsa, Texas. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”). Therefore, some amounts may differ from amounts presented in or used in the presentation of the basic financial statements.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 2: INDIRECT COST RATE**

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 3: FEDERAL LOANS AND LOAN GUARANTEES**

During the fiscal year ended September 30, 2024, the City had no outstanding federal loans payable or loan guarantees.

**NOTE 4: SUB-RECIPIENTS**

During the fiscal year ended September 30, 2024, the City did not have any sub-recipients.

**NOTE 5: NONCASH AWARDS**

During the fiscal year ended September 30, 2024, the City did not receive any non-cash assistance.

**NOTE 6: FEDERALLY FUNDED INSURANCE**

During the fiscal year ended September 30, 2024, the City had no outstanding federally funded insurance.