
CITY OF ELSA, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2023

ADRIAN WEBB
CERTIFIED PUBLIC ACCOUNTANT

CITY OF ELSA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2023

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
Statement of Net Position	10
Statement of Activities	11
Governmental Fund Financial Statements:	
Balance Sheet	12
Reconciliation of Governmental Fund Balance Sheets to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance	14
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	15
Proprietary Fund Financial Statements:	
Statement of Net Position	16
Statement of Revenues, Expenses, and Changes in Fund Net Position	17
Statement of Cash Flows	18
Notes to the Financial Statements	19
 <u>Required Supplementary Information</u>	
Budgetary Comparison Schedule - General Fund	40
 <u>Other Supplementary Information</u>	
Nonmajor Governmental Funds:	
Combining Balance Sheet	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	42
 <u>Internal Control/Compliance Section</u>	
Report on Compliance and Internal Control Over Financial Reporting Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43
Schedule of Findings and Responses	45
Schedule of Prior Findings	47
Corrective Action Plan	48

ADRIAN WEBB, CPA

Certified Public Accountant

Edinburg, Texas

Independent Auditor's Report

To the Honorable Mayor and Members of the City Commission of the
City of Elsa, Texas

Qualified Opinion

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elsa as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Elsa's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material aspects, the financial position of the City of Elsa, as of September 30, 2023, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

Management has not performed a thorough and complete inventory of fixed assets, including infrastructure, nor developed a complete and accurate depreciation expense calculation. Accounting principles generally accepted in the United States of America require that a complete fixed asset inventory be conducted to properly account for all fixed assets of the City, which would materially affect the assets and net position in the Government-Wide Statement of Net Assets and Statement of Activities. The amount by which this departure would affect the assets, net position, and expenses of the City has not yet been determined.

Emphasis of Matter – Change in Accounting Principle

As discussed in the notes to the financial statements, in the year ending September 30, 2023, the City adopted new accounting guidance, *Governmental Accounting Standards Board* (GASB) Statement No. 96, Subscription-Based Technology Arrangements. 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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, ability to continue as a going concern for twelve months beyond the financial statement date, including any currently know information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility

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.

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.

Other Matters

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.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2024, 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
May 21, 2024

City of Elsa, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023

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, 2023. Please read it in conjunction with the Independent Auditors' Report and the City's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

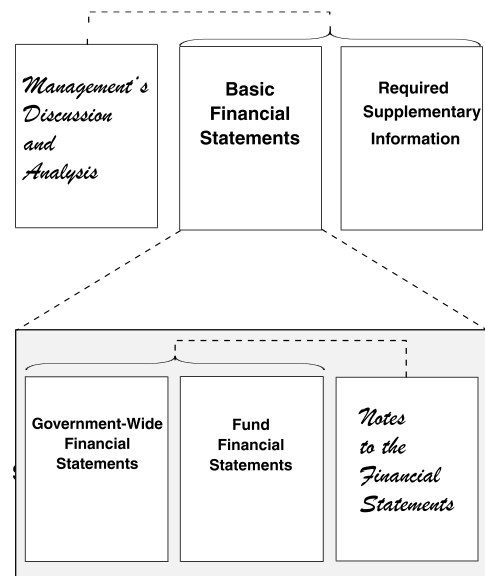
The City's overall total change in net position was an increase of \$1,059,113 as of September 30, 2023. The change is composed of Governmental Activities' net position of \$6,764,609 and Business-Type Activities' net position of \$14,253,171 for a total of \$21,017,780 ending balance.

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.

- 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.

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



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, 2023

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 as 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.

In the Statement of Net position and the Statement of Activities, we report the activities of one fund type:

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, 2023

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 \$1,059,112 during the current fiscal year.

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

	Governmental Activities		Business-Type Activities		Totals		Increase
	2023	2022	2023	2022	2023	2022	(Decrease)
Current Assets							
Cash and Cash Equivalents	\$ 1,267,631	\$ 2,639,284	\$ 94,786	\$ 47,754	\$ 1,362,417	\$ 2,687,038	\$ (1,324,622)
Taxes Receivable, Net	274,760	325,512	-	-	274,760	325,512	(50,752)
Accounts Receivable, Net	930,204	75,353	129,164	106,383	1,059,368	181,736	877,632
Due from Other Funds	23,825	3,137	-	(418)	23,825	2,719	21,106
Due from Others	16,518	433,485	-	-	16,518	433,485	(416,967)
Total current assets	2,512,939	3,476,771	223,949	153,719	2,736,888	3,630,490	(893,602)
Capital Assets, Net	5,420,462	4,156,487	14,282,452	14,274,787	19,702,914	18,431,274	1,271,640
Total Assets	\$ 7,933,401	\$ 7,633,258	\$ 14,506,401	\$ 14,428,506	\$ 22,439,802	\$ 22,061,764	\$ 378,038
Current Liabilities							
Payroll Liabilities	14,756	11,063	-	-	14,756	11,063	3,693
Unearned Revenues	-	1,426,685	-	-	-	1,426,685	(1,426,685)
Debt Service - Current	278,729	119,991	-	39,029	278,729	159,020	119,709
Other Current Liabilities	-	-	253,231	62,292	253,231	62,292	190,939
Total Current Liabilities	293,485	1,557,739	253,231	101,321	546,716	1,659,060	(1,112,345)
Non-Current Liabilities							
Debt Service - Noncurrent	875,307	444,036	-	-	875,307	444,036	431,271
Total Non-Current Liabilities	875,307	444,036	-	-	875,307	444,036	431,271
Total Liabilities	1,168,792	2,001,775	253,231	101,321	1,422,023	2,103,096	(681,074)
Net Position							
Net Invested in Capital Assets	\$ 4,266,426	\$ 3,589,460	\$ 14,282,451	\$ 14,235,759	\$ 18,548,877	\$ 17,825,219	\$ 723,658
Restricted	317,639	414,507	-	-	317,639	414,507	(96,868)
Unrestricted	2,180,544	1,627,516	(29,281)	91,426	2,151,264	1,718,942	432,322
Total Net Position	\$ 6,764,609	\$ 5,631,483	\$ 14,253,171	\$ 14,327,185	\$ 21,017,780	\$ 19,958,668	\$ 1,059,112

City of Elsa, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Total revenues decreased by \$225,481 and total expenses decreased by \$758,216. The change in net position for the current fiscal year was an increase of \$1,059,112.

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

	Governmental Activities		Business- Type		Totals		Increase
	2023	2022	2023	2022	2023	2022	(Decrease)
Revenues							
Program Revenues							
Charges for Services	\$ 1,170,549	\$ 1,829,936	\$ 1,440,455	\$ 1,390,583	\$ 2,611,004	\$ 3,220,519	\$ (609,515)
General Revenues							
Property Taxes, Levied for general purposes	1,762,298	1,537,757	-	-	1,762,298	1,537,757	224,541
Sales Taxes	1,168,844	1,137,004	-	-	1,168,844	1,137,004	31,840
Franchise Taxes	237,132	287,453	-	-	237,132	287,453	(50,321)
Penalty and Interest	77,652	80,665	-	-	77,652	80,665	(3,013)
Licenses and Permits, and Fines	781,634				781,634	-	
Interest Revenue	-	115,900	-	-	-	115,900	(115,900)
Intergovernmental Revenue and Grants	690,592	1,278,408	-	-	690,592	1,278,408	(587,816)
Transfers	(56,405)	(76,239)	187,077	103,841	130,672	27,602	103,070
Total Revenues	5,832,296	6,190,884	1,627,532	1,494,424	7,459,828	7,685,308	(225,481)
Expenses							
General Government	2,180,781	2,516,508	-	-	2,180,781	2,516,508	(335,727)
Public Safety	1,412,829	1,949,768	-	-	1,412,829	1,949,768	(536,939)
Public Works	466,599	564,601	-	-	466,599	564,601	(98,002)
Health and Welfare	203,332	273,908	-	-	203,332	273,908	(70,576)
Culture and Recreational	226,418	246,063	-	-	226,418	246,063	(19,645)
Debt Interest	209,211	17,323	-	-	209,211	17,323	191,888
Water and Sewer	-	-	1,701,545	1,590,760	1,701,545	1,590,760	110,785
Total Expenses	\$ 4,699,170	\$ 5,568,171	\$ 1,701,545	\$ 1,590,760	\$ 6,400,715	\$ 7,158,931	\$ (758,216)
Change in Net Position	1,133,126	622,713	(74,014)	(96,336)	1,059,112	526,377	532,735
Net Position Beginning	5,631,483	5,259,784	14,327,185	14,235,758	19,958,667	19,591,878	366,789
Prior Period Adjustment	-	(251,014)	-	91,426	-	(159,588)	159,588
Net Position Ending	\$ 6,764,609	\$ 5,631,483	\$ 14,253,171	\$ 14,230,848	\$ 21,017,780	\$ 19,958,667	\$ 1,059,112

City of Elsa, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023

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 \$1,539,719.

Capital Assets and Debt Administration

Capital Assets

The City's investments in capital assets for its governmental activities amount to \$4,266,426 (net of accumulated depreciation) for 2023. Business-type activities amounted to \$14,282,452 for 2023. 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							
	Governmental Activities		Business-Type		Totals		Increase/ (Decrease)	
	2023	2022	2023	2022	2023	2022		
Capital Assets								
Land	\$ 154,191	\$ 154,191	\$ 13,046	\$ 13,046	\$ 167,237	\$ 167,237	\$ -	
Buildings	1,595,168	961,318	-	-	1,595,168	961,318	633,850	
Furniture and Equipment	3,814,479	3,323,532	854,257	854,257	4,668,736	4,177,790	490,946	
Infrastructure/Streets	2,851,636	2,851,636	18,952,247	18,944,582	21,803,883	21,796,218	7,665	
Right-of-Use Assets	213,846	-	-	-	213,846	-	213,846	
Total Capital Assets	\$ 8,629,320	\$ 7,290,678	\$ 19,819,550	\$ 19,811,885	\$ 28,448,870	\$ 27,102,563	\$ 1,346,307	
Less: Accumulated Depreciation	\$ (3,208,858)	\$ (3,134,191)	\$ (5,537,098)	\$ (5,537,098)	\$ (8,745,956)	\$ (8,671,289)	\$ (74,667)	
Total Capital Assets (Net)	\$ 5,420,462	\$ 4,156,487	\$ 14,282,452	\$ 14,274,787	\$ 19,702,914	\$ 18,431,274	\$ 1,271,640	

Long-Term Debt

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

	Table A-4							
	Governmental Activities		Business-Type Activity		Totals		Increase (Decrease)	
	2023	2022	2023	2022	2023	2022		
Long-Term Obligations	\$ 736,128	\$ -	\$ -	\$ -	736,128	-	\$ 736,128	
Leases Payable (Net)	139,179	444,036	-	-	139,179	444,036	(304,857)	
Current Portion	278,729	119,991	-	39,029	278,729	159,020	119,709	
	\$ 1,154,036	\$ 564,027	\$ -	\$ 39,029	\$ 1,154,036	\$ 603,056	\$ 550,980	

City of Elsa, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023

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 2023/2024 budget.

1. The ad valorem property tax rate was set at \$.6561 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 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.

CITY OF ELSA
Statement of Net Position
As of September 30, 2023

Exhibit A-1

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
1010 Cash and Cash Equivalents	\$ 1,267,631	\$ 94,786	\$ 1,362,417	\$ 1,194,728
1050 Taxes Receivable	407,356	-	407,356	-
1051 Allowance for Uncollectible Taxes (credit)	(132,596)	-	(132,596)	-
1150 Accounts Receivable, Net	930,204	129,164	1,059,368	-
1260 Due from Other Governments	23,825	-	23,825	-
1300 Due from Other Funds	16,518	-	16,518	-
1791 Capital Assets Not Being Depreciated	154,191	13,046	167,237	2,641,481
1792 Capital Assets Being Depreciated	8,475,129	19,806,504	28,281,633	-
1780 Accumulated Depreciation	(3,208,858)	(5,537,098)	(8,745,956)	-
TOTAL ASSETS	\$ 7,933,401	\$ 14,506,401	\$ 22,439,802	\$ 3,836,209
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	7,933,401	14,506,401	22,439,802	3,836,209
LIABILITIES:				
2011 Customer Deposits	-	79,332	79,332	-
2020 Payroll Liabilities	14,756	-	14,756	-
2080 Due to Other Funds	-	173,899	173,899	157,381
2501 Debt Service - Due Within One Year	278,729	-	278,729	-
2502 Debt Service - Due in More Than One Year	875,307	-	875,307	207,346
TOTAL LIABILITIES	1,168,792	253,231	1,422,022	364,727
FUND BALANCES:				
3000 Net Investment In Capital Assets	4,266,426	14,282,451	18,548,877	2,434,135
3480 Restricted for Debt Service	299,565	-	299,565	-
3550 Committed for Construction	18,074	-	18,074	-
3600 Unassigned	2,180,544	(29,281)	2,151,264	1,037,347
TOTAL FUND BALANCES	6,764,609	14,253,171	21,017,780	3,471,482
TOTAL LIABILITIES, DEFERRED LIABILITIES & FUND BALANCES	\$ 7,933,401	\$ 14,506,401	\$ 22,439,802	\$ 3,836,209

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

CITY OF ELSA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

EXHIBIT B-1

Data
Control
Codes

		Primary Government						Component Unit
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Nonmajor Component Units
Primary Government:								
GOVERNMENTAL ACTIVIES:								
100	General Government	\$ 2,180,781	\$ 493,972	\$ 291,430	\$ (1,395,379)	\$ -	\$ (1,395,379)	\$ -
200	Public Safety	1,412,829	526,747	310,766	(575,316)	-	(575,316)	-
300	Public Works	466,599	100,667	59,391	(306,541)	-	(306,541)	-
400	Health and Welfare	203,332	-	-	(203,332)	-	-	-
500	Culture and Recreation	226,418	49,163	29,005	(148,250)	-	(148,250)	(939,496)
720	Interest on Debt	209,211	-	-	(209,211)	-	(209,211)	-
	Total Governmental Activities	<u>4,699,170</u>	<u>1,170,549</u>	<u>690,592</u>	<u>(2,838,029)</u>	<u>-</u>	<u>(2,634,697)</u>	<u>(939,496)</u>
BUSINESS-TYPE ACTIVITIES								
701	Water and Sewer	<u>1,701,545</u>	<u>1,440,455</u>	<u>-</u>	<u>-</u>	<u>(261,090)</u>	<u>(261,090)</u>	<u>1,701,545</u>
	Total Business-Type Activities	<u>1,701,545</u>	<u>1,440,455</u>	<u>-</u>	<u>-</u>	<u>(261,090)</u>	<u>(261,090)</u>	<u>1,701,545</u>
TOTAL PRIMARY GOVERNMENT		<u><u>6,400,715</u></u>	<u><u>2,611,004</u></u>	<u><u>690,592</u></u>	<u><u>(2,838,029)</u></u>	<u><u>(261,090)</u></u>	<u><u>(2,895,787)</u></u>	
General Revenues								
Taxes:								
	Property Taxes, Levied for General Purposes				1,452,385	-	1,452,385	-
	Property Taxes, Levied for Debt Service				309,913	-	309,913	-
	General Sales and Use Taxes				1,168,844	-	1,168,844	1,168,844
	Franchise Tax				237,132	-	237,132	-
	Other Taxes				9,988	-	9,988	-
	Penalty and Interest on Taxes				77,652	-	77,652	73,786
	Licenses and Permit, and Fines				771,646	-	771,646	-
	Transfers In (Out)				<u>(56,405)</u>	<u>187,077</u>	<u>130,672</u>	<u>(130,672)</u>
	Total General Revenues and Transfers				<u>3,971,155</u>	<u>187,077</u>	<u>4,158,232</u>	<u>1,111,958</u>
Change in Net Position					1,133,126	(74,013)	1,059,113	172,462
Net Position - Beginning					<u>5,631,483</u>	<u>14,327,184</u>	<u>19,958,667</u>	<u>3,299,020</u>
Net Position - Ending					<u>\$ 6,764,609</u>	<u>\$ 14,253,171</u>	<u>\$ 21,017,780</u>	<u>\$ 3,471,482</u>

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

CITY OF ELSA
Balance Sheet - Governmental Funds
As of September 30, 2023

Exhibit C-1

	General Fund	American Recovery Plan Act	Other Funds	Total Major Funds
ASSETS:				
1010 Cash and Cash Equivalents	\$ 1,267,631	\$ 802,454	\$ -	\$ 2,070,086
1050 Taxes Receivable	407,356	-	-	407,356
1051 Allowance for Uncollectible Taxes (credit)	(132,596)	-	-	(132,596)
1150 Accounts Receivable, Net	930,204	-	-	930,204
1260 Due from Other Governments	23,825	-	-	23,825
1300 Due from Other Funds	188,899	-	-	188,899
TOTAL ASSETS	2,685,319	802,454	-	3,487,774
LIABILITIES:				
2020 Payroll Liabilities	14,756	-	-	14,756
2230 Unearned Revenues	-	802,454	-	802,454
TOTAL LIABILITIES	14,756	802,454	-	817,210
2601 Deferred Resource Inflow - Property Taxes	274,760	-	-	274,760
2606 Deferred Resource Inflow - Court Fines	856,085	-	-	856,085
TOTAL DEFERRED INFLOWS OF RESOURCES	1,130,845	-	-	1,130,845
FUND BALANCES:				
3480 Restricted for Debt Service	-	-	-	-
3550 Committed for Construction	-	-	-	-
3600 Unassigned	1,539,719	-	-	1,539,719
TOTAL FUND BALANCES	1,539,719	-	-	1,539,719
TOTAL LIABILITIES, DEFERRED LIABILITIES & FUND BALANCES	\$ 2,685,319	\$ 802,454	-	3,487,774

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

CITY OF ELSA

Exhibit C-2

Reconciliation of the Balance Sheet - Governmental to the Governmental Activities - Statement of Net Position
As of September 30, 2023

Total Fund Balances - Governmental Funds	\$ 1,539,719
Amounts Reported for governmental activities in the statement of net position are different because:	
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 2023 capital outlays and debt principal payments is to increase(decrease) the change in net position.	
	4,266,426
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.	
	958,464
Change in Net Position of Governmental Activities	\$ 6,764,609

CITY OF ELSA
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
As of September 30, 2023

Exhibit C-3

		General Fund	American Recovery Plan Act	Other Funds	Total All Funds
REVENUES:					
5110	Property Taxes	\$ 1,416,648	\$ -	\$ 307,258	\$ 1,723,906
5120	General Sales and Use Taxes	1,168,844	-	-	1,168,844
5170	Franchise Tax	237,132	-	-	237,132
5180	Other Taxes	9,988	-	-	9,988
5190	Penalty and Interest on Taxes	59,580	-	18,072	77,652
5200	Licenses and Permits	595,684	-	-	595,684
5300	Intergovernmental Revenue and Grants	74,393	522,831	93,368	690,592
5400	Charges for Services	1,170,549	-	-	1,170,549
5406	Recreation and Events	32,116	-	-	32,116
5510	Fines	175,962	-	-	175,962
5620	Rent and Lease Revenue	6,205	-	-	6,205
5700	Other Revenue	96,048	-	485	96,533
	TOTAL REVENUES	5,043,148	522,831	419,184	5,985,163
100	General Government	2,230,791	49,806	-	2,280,597
200	Public Safety	1,861,129	-	-	1,861,129
300	Public Works	538,856	-	-	538,856
400	Health and Welfare	261,481	-	-	261,481
500	Culture and Recreation	234,820	-	-	234,820
710	Principal on Debt	-	-	209,211	209,211
720	Interest on Debt	-	-	56,220	56,220
790	Other Debt Service	27,800	-	-	27,800
800	Capital Outlay	420,547	365,025	329,225	1,114,797
	TOTAL EXPENDITURES	5,575,424	414,831	\$ 594,656	6,584,911
Excess(Deficiency) of Revenues Over(Under)					
	Expenditures	(532,276)	108,000	(175,472)	(599,748)
7006	Transfer in Component Unit	(8,267)	-	-	(8,267)
7914	Noncurrent Loans	800,000	-	-	800,000
7915	Transfers In	55,094	-	173,139	228,233
7958	Nonoperating Transfers In(Out)	(39,634)	(108,000)	-	(147,634)
8911	Transfers Out	(2,624)	-	(94,535)	(97,159)
8915	Transfer Out to Component Unit	(31,577)	-	-	(31,577)
	TOTAL OTHER FINANCING SOURCES (USES)	772,992	(108,000)	(96,868)	743,596
	Net Change in Fund Balances	\$ 240,716	\$ -	\$ (28,567)	\$ 143,847
3600	Fund Balance - Beginning	\$ 1,299,004	\$ -	\$ 414,507	\$ 1,713,511
3900	Fund Balance - Ending	\$ 1,539,719	\$ -	\$ 385,940	\$ 1,925,659

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

CITY OF ELSA**Exhibit C-4**

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to
the Governmental Activities - Statement of Activities
As of September 30, 2023

Total Net Change in Fund Balances - Governmental Funds	\$ 143,847
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 2023 capital outlays and debt principal payments is to increase(decrease) the change in net position.	905,586
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.	(83,693)
Change in Net Position of Governmental Activities	<hr/> \$ 1,133,126

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

CITY OF ELSA
Statement of Net Position - Proprietary Funds
As of September 30, 2023

	Enterprise Fund
ASSETS:	
1010 Cash and Cash Equivalents	\$ 94,786
1150 Accounts Receivable, Net	129,164
1791 Capital Assets Not Being Depreciated	13,046
1792 Capital Assets Being Depreciated	19,798,839
1780 Accumulated Depreciation	(5,537,098)
TOTAL ASSETS	<u>14,498,736</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u><u>\$ 14,498,736</u></u>
LIABILITIES:	
2011 Customer Deposits	\$ 71,667
2080 Due to Other Funds	173,899
TOTAL LIABILITIES	<u>245,566</u>
FUND BALANCES:	
4001 Net Investment in Capital Assets	14,282,452
3890 Unrestricted	(29,281)
TOTAL FUND BALANCES	<u>14,253,171</u>
 TOTAL LIABILITIES, DEFERRED LIABILITIES & FUND BALANCES	 <u><u>\$ 14,498,736</u></u>

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

CITY OF ELSA
Statement of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds
As of September 30, 2023

		Enterprise Fund
REVENUES:		
5401	Water Revenues	\$ 831,111
5402	Sewer Revenues	609,344
	TOTAL REVENUES	<u>1,440,455</u>
6201	Salaries and Related Benefits	945,923
6300	Purchased Professional & Technical Services	59,759
6500	Other Operating Costs	207,337
6502	Repairs and Maintenance	218,715
6503	Bank Service and Credit Card Service	24,559
6600	Supplies	240,714
6910	Principal on Debt	4,125
6920	Interest on Debt	412
	TOTAL EXPENDITURES	<u>1,701,545</u>
Excess(Deficiency) of Revenues Over(Under)		
	Expenditures	(261,090)
7915	Transfers In	39,441
7958	Nonoperating Transfers In(Out)	147,634
	TOTAL OTHER FINANCING SOURCES (USES)	<u>187,076</u>
	Net Change in Fund Balances	\$ (74,014)
3900	Net Postion - Beginning	\$ 14,327,184
3900	Fund Balance - Ending	<u>\$ 14,253,171</u>

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

CITY OF ELSA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Cash Flows From Operating Activities:	
Cash Receipts From Customers	\$ 1,417,674
Cash Payments to Employees	(969,628)
Cash Payments for Services	(118,177)
Cash Payments for Supplies	(465,788)
Net Cash Provided(Used) by Operating Activities	<u>(135,919)</u>
Cash Flow From Capital and Related Financing Activities:	
Principal Paid on Long-Term Debt	(4,125)
Net Cash Provided(Used) by Capital and Related Financing Activities	<u>(4,125)</u>
Cash Flow From Financing Activities	
Operating Transfer In	187,076
Net Cash Provided(Used) by Financing Activities	<u>187,076</u>
Net Increase (Decrease) in Cash and Cash Equivalents	47,032
Cash and Cash Equivalents, Beginning of Year	47,754
Cash and Cash Equivalents, End of Year	<u>\$ 94,786</u>
Reconciliation of Operating Income of Net Cash Provided by Operating Activities:	
Operating Loss	\$ (261,090)
Effect of Increases and Decreases in Current Assets of Liabilities:	
Decrease (Increase) in Receivables	(24,605)
Increase (Decrease) in Accounts Payable	173,481
Increase (Decrease) in Other Liabilities	(23,705)
Net Cash Provided by Operating Activities	<u>\$ (135,919)</u>

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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 as 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, 2023**

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 of the District’s board members and can remove them at will. Since the City appoints the Board of Directors, the District provides services to the exclusive benefit of the City. The District also maintains a September 30th 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, 2023

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 or not 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 a 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, 2023

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. 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.

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, 2023

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 to be *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 6th 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 20th.
- 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, 2023

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, 2023.

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, 2023

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, 2023**

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:

Buildings	20-40 years
Infrastructure	10-50 years
Plants and Improvements	10-40 years
Equipment	3-10 years
Vehicles	5-10 years

As of September 30, 2023, the City has not adhered to the policies listed above. Refer to finding #2023-002 in the Schedule of Findings and Responses of this report. The right-to-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 \$139,179 of right-to-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 an initial, individual value of \$5,000 or more. 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, 2023

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 reasonable 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 reasonable estimated to be uncollectible based on prior experience.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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 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, 2023

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. Recently Issued and Implemented Accounting Pronouncements

GASB Statement No. 96, Subscription-Based Information Technology Arrangements, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement defines a SBITA; establishes that a SBITA results in a right-of-use subscription asset—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The City evaluated all SBITAs and has made the necessary adjustments to the financial statements. Adoption of GASB Statement No. 96 had no effect on beginning net position of fund balance as of October 1, 2022. See Note 14 Leases and Subscription-Based Information Technology Arrangements for further information.

GASB Statement No. 99, Omnibus 2022, the primary objective of this Statement is to enhance comparability in accounting and financial reporting and improve consistency of authoritative literature by addressing (1) practice issues from implementation and application of certain other GASB statements and (2) accounting and financial reporting for financial guarantees. Among other things, this Statement clarifies that instruments within scope of GASB Statement No. 53 that do not meet the definition of an investment derivative or of a hedging derivative are considered as other derivative instruments. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The City will assess and implement this Statement where applicable in fiscal year 2024.

GASB Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB Statement 62, the primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for decision making and assessing accountability. Accounting changes in this Statement are defined as, changes in accounting principles, estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that(a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature and quantitative effects. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023. The City will assess and implement this Statement where applicable in fiscal year 2024.

GASB Statement No. 101, Compensated Absences, the primary objective of this Statement is to meet the information needs of financial statement users by updating recognition and measurement guidance for compensated absences. That is achieved by aligning the recognition and measurement guidance under a unified model and amending certain previous required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave that is accumulated is carried forward from the reporting period to a future reporting period in which it may be used, paid, or settled. Leave that is likely to be settled through conversion to defined benefit postemployment benefits should not be included in liability for compensated absences. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. The Statement establishes guidance for liability measurement, generally this is the pay rate of the employee as of date of the financial statements. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023. The City will assess and implement this Statement where applicable in fiscal year 2025.

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, 2023, the carrying amount of the City's deposits (cash) was \$3,690,518 and the bank balance was \$3,700,948, all of which is unrestricted. 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, 2023, 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, 2023

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, 2023, 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, 2023.

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, 2023

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, 2023, the carrying amount of the Municipal Development District and The Economic Development Corporation's deposits (cash) was \$1,205,999 and the bank balance was \$1,206,078 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, 2023, 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 bases 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 \$1,762,298 were assessed on property values totaling \$278,580,420 using a tax rate of \$0.7961 (\$0.6561 for general operations and \$0.1400 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, 2023, as summarized by the following table:

Description	Taxes Receivable	Due From Other Governments	Due From Other Funds	Accounts Receivable, Net	Total Receivables
Governmental:					
General Fund	\$ 274,760	\$ 23,825	\$ 188,899	\$ 930,204	\$ 1,417,688
Interest and Sinking	76,149	-	-	-	76,149
Pacific Trails Fund	-	-	2,719	-	2,719
Total Governmental Funds	350,909	23,825	191,618	930,204	1,496,556
Enterprise:					
Enterprise Fund	-	-	-	129,164	129,164
Total Enterprise Funds	\$ -	\$ -	\$ -	\$ 129,164	\$ 129,164

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 5 DISAGGREGATION OF PAYABLES

Payables as of September 30, 2023, are summarized by the following table:

Description	Accrued Wages and Payroll Liabilities	Due From Other Funds	Other	Total Payables
Governmental:				
General Fund	\$ 14,756	\$ -	\$ -	\$ 14,756
Pacific Trails Fund	-	16,000	-	16,000
Total Governmental Funds	14,756	26,000	-	40,756
Enterprise:				
Enterprise Fund	-	173,899	79,332	253,231
Total Enterprise Funds	-	173,899	79,332	253,231
Component Unit:				
Economic Development Corporation	-	2,719	-	2,719
Total Component Unit	\$ -	\$ 2,719	\$ -	\$ 2,719

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 various components of deferred revenue and unearned revenue reported in the fund financial statements were as follows:

Description	General Fund	Debt Service Fund	Total
Property Taxes	\$ 274,760	\$ -	\$ 274,760
American Recovery Plan Act (ARPA)	-	802,454	802,454
Total Unearned Revenues	\$ 274,760	\$ 802,454	\$ 1,077,214

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 7 CAPITAL ASSETS

Capital Assets for Governmental Activities as of September 30, 2023, are as follows:

Governmental Activities	Beginning Balance October 1, 2022	Additions	Retirements	Ending Balance September 30, 2023
Capital Assets not Being Depreciated				
Land	\$ 154,191	\$ -	\$ -	\$ 154,191
Total Capital Assets not Being Depreciated	154,191	-	-	154,191
Capital Assets Being Depreciated				
Building and Improvements	961,318	633,850	-	1,595,168
Furniture and Equipment	3,323,532	490,946	-	3,814,479
Infrastructure	2,851,636	-	-	2,851,636
Right-of-Use Assets	-	213,846	-	213,846
Total Capital Assets Being Depreciated	7,136,487	1,338,642	-	8,475,129
Less Accumulated Depreciation For:				
Buildings and Improvements	(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)	-	(74,667)
Total Accumulated Depreciation	(3,134,191)	(74,667)	-	(3,208,858)
Governmental Capital Assets, Net	\$ 4,156,487	\$ 1,263,975	\$ -	\$ 5,420,462

Capital Assets for Business-Type Activities as of September 30, 2023, are as follows:

Business-Type Activities:	Beginning Balance October 1, 2022	Additions	Retirements	Ending Balance September 30, 2023
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	-	-	854,257
Infrastructure	18,944,582	-	-	18,944,582
Total Capital Assets Being Depreciated	19,798,839	-	-	19,798,839
Less Accumulated Depreciation For:				
Capital Assets, being depreciated	(5,537,098)	-	-	(5,537,098)
Total Accumulated Depreciation	(5,537,098)	-	-	(5,537,098)
Business-Type Capital Assets, Net	\$ 14,274,787	\$ -	\$ -	\$ 14,274,787

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, 2023, Refer to finding #2023-002 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, 2023

NOTE 8 INTERFUND TRANSFERS AND BALANCES

Interfund balances as of September 30, 2023, consisted of the following individual fund balances:

Description	Due to Other Fund	Due from Other Funds
General Fund	\$ 188,899	\$ -
Special Revenue	-	10,000
Capital Projects	2,719	16,000
Enterprise	-	173,899
Component Unit	11,000	2,719
	<u>\$ 202,618</u>	<u>\$ 202,618</u>

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, 2023, are summarized as follows:

	Transfers In	Transfers Out
General Fund	\$ 442,984	\$ 912,254
Payroll Fund	-	4,144
Debt Service Fund	2,719	200,000
Enterprise Fund	-	418
American Recovery Plan Act Fun	912,254	-
Cares Act Fund	-	238,422
Component Units	-	2,719
Total Interfund Transfers	<u>\$ 1,357,957</u>	<u>\$ 1,357,957</u>

NOTE 9 LONG-TERM DEBT

The following table summarizes the City's long-term debt obligations for governmental activities as of September 30, 2023:

TYPE	INTEREST RATES (%)	FINAL PRINCIPAL PAYMENT	ORIGINAL AMOUNT	ISSUANCE YEAR	9/30/2022	ADDITIONS DURING YEAR	DELETIONS DURING YEAR	9/30/2023
Governmental Activities:								
Tax Notes:								
Tax Notes Series 2023	6.22%	2027	800,000	2023	\$ -	\$ 800,000	\$ 90,000	\$ 710,000
Total Tax Notes:					<u>-</u>	<u>800,000</u>	<u>90,000</u>	<u>710,000</u>
Other Payables								
Leases Liability:								
Copier Lease	7.50%	2025	277,424	2020	165,301	-	56,217	109,084
Time Clock Lease	7.50%	2023	44,042	2018	8,489	-	8,489	-
Phone System Lease	7.50%	2026	38,653	2018	29,671	-	7,328	22,342
Folding Machine Lease	7.50%	2028	13,804	2022	10,386	-	2,633	7,753
Total Leases Liability					<u>213,846</u>	<u>-</u>	<u>74,667</u>	<u>139,179</u>
Financed Purchases:								
Prosperity Bank	4.59%	2029	480,305	2022	350,181	-	45,324	304,857
Total Financed Purchases					<u>350,181</u>	<u>-</u>	<u>45,324</u>	<u>304,857</u>
Total Other Payables					<u>564,027</u>	<u>-</u>	<u>119,991</u>	<u>444,036</u>
Total Governmental Activities					<u>\$ 564,027</u>	<u>\$ 800,000</u>	<u>\$ 209,991</u>	<u>\$ 1,154,036</u>

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 9 LONG-TERM DEBT (Continued)

Governmental Activities:

Tax Note Series 2023:

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 tax note requirements as of September 30, 2023, are summarized as shown by the following table:

Year-Ending			
September,	Principal	Interest	
2024	\$ 160,000	\$ 41,674	
2025	170,000	31,567	
2026	185,000	20,759	
2027	195,000	9,097	
Total	\$ 710,000	\$ 103,097	

The City has entered into lease agreements as 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. The following summarize the City's debt relating to these assets:

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%.

Time Clock Lease

The City entered into an agreement to lease time clocks 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 \$877 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%.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 9 LONG-TERM DEBT (Continued)

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%.

The future lease obligations and the net present value of these minimum lease payments as of September 30, 2023, for governmental activities are summarized as follows:

Year-Ending			
September,	Principal	Interest	
2024	\$ 71,289	\$ 1,362	
2025	60,015	771	
2026	7,875	164	
Total	\$ 139,179	\$ 2,298	

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, 2023, is \$304,857.

The City's annual financed purchase requirements as of September 30, 2023, are summarized as shown by the following table:

Year-Ending			
September,	Principal	Interest	
2024	\$ 47,440	\$ 13,184	
2025	49,656	10,969	
2026	51,974	8,650	
2027	54,401	6,223	
2028	56,942	3,683	
2029 - 2033	44,444	1,024	
Total	\$ 304,857	\$ 43,733	

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 9 LONG-TERM DEBT (Continued)

Component Unit Activities:

The following table summarizes the City's long-term debt obligations for component unit activities as of September 30, 2023:

TYPE	INTEREST RATES (%)	FINAL PRINCIPAL PAYMENT	ORIGINAL AMOUNT	ISSUANCE YEAR	9/30/2022	ADDITIONS DURING YEAR	DELETIONS DURING YEAR	9/30/2023
Component Unit Activities:								
Notes Payable:								
Texas National Bank	7.50%	2023	465,250	2018	\$ 33,801	\$ -	\$ 33,801	\$ -
Texas National Bank	7.50%	2027	107,444	2022	107,444	163,456	63,554	207,346
Total Notes Payable:			572,694		141,245	163,456	97,355	207,346
Total Component Unit Activities			572,694		\$ 141,245	\$ 163,456	\$ 97,355	\$ 207,346

Texas National Bank

The Promissory Note Loan Agreement contract dated December 20, 2018, was used for the financing the 380-agreement payment to Walmart for a total loan amount of \$465,250 for 5 years at a fixed interest rate of 7.50% with a monthly payment of \$9,348 including interest. The balance was paid as of September 30, 2023.

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, 2023, the principal amount outstanding was \$207,346.

Year-Ending	Principal	Interest
September,		
2027	207,346	-
Total	\$ 207,346	\$ -

Business-Type Activities:

TYPE	ORIGINAL AMOUNT	ISSUANCE YEAR	FINAL PRINCIPAL PAYMENT	INTEREST RATES (%)	September 30, 2022	ADDITIONS DURING YEAR	DELETIONS DURING YEAR	September 30, 2023
Business-Type Activities:								
Other Payables								
Financed Purchases:								
Prosperity Bank	499,837	2016	2023	7.50%	\$ 39,029	\$ -	\$ 39,029	\$ -
Total Other Payables	499,837				39,029	-	39,029	-
Total Business-Type Activities					\$ 39,029	\$ -	\$ 39,029	\$ -

Prosperity Bank

The City of Elsa, Texas, has financed the acquisition of VACTOR Truck. The City of Elsa, Texas entered into a lease agreement as lessee for financing the acquisition of the truck in the amount of \$499,837 on March 22, 2016. 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.

**CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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.

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>Description</u>	<u>Department/Expenditure</u>	<u>Amount of Excess</u>
General Fund	Public Safety	(226,201)
General Fund	Public Works	(53,417)
General Fund	Health and Welfare	(27,187)
General Fund	Culture and Recreation	(13,913)

NOTE 13 EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated events and transactions for potential recognition or disclosure through May 21, 2024, the date the financial statements were available to be issued.

CITY OF ELSA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts GAAP Basis	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
Property Taxes	\$ 1,701,800	\$ 1,701,800	\$ 1,416,648	\$ (285,152)
General Sales and Use Taxes	1,128,000	1,128,000	1,168,844	40,844
Franchise Tax	265,700	265,700	237,132	(28,569)
Penalty and Interest on Taxes	73,000	73,000	69,568	(3,432)
Licenses and Permits	79,900	79,900	595,684	515,784
Intergovernmental Revenues and Grants	-	-	74,393	74,393
Charges for Services	1,118,185	1,118,185	1,202,665	84,480
Fines	223,440	223,440	175,962	(47,478)
Other Revenue	600,833	600,833	102,253	(498,580)
Total Revenues	<u>5,190,858</u>	<u>5,190,858</u>	<u>5,043,148</u>	<u>(147,710)</u>
EXPENDITURES:				
Current:				
General Government	2,302,235	2,302,235	2,230,791	71,444
Public Safety	1,634,928	1,634,928	1,861,129	(226,201)
Public Works	485,439	485,439	538,856	(53,417)
Health and Welfare	234,294	234,294	261,481	(27,187)
Culture and Recreation	220,907	220,907	234,820	(13,913)
Debt Service:				
Principal on Debt	313,055	313,055	27,800	285,255
Interest on Debt	-	-	-	-
Capital Outlay:				
Capital Outlay	-	-	420,547	(420,547)
Total Expenditures	<u>5,190,858</u>	<u>5,190,858</u>	<u>5,575,424</u>	<u>(384,566)</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	<u>-</u>	<u>-</u>	<u>(532,276)</u>	<u>(532,276)</u>
OTHER FINANCING SOURCES (USES):				
Noncurrent Loans	-	-	800,000	800,000
Transfers In	-	-	55,094	55,094
Transfers Out	-	-	(82,102)	(82,102)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>772,992</u>	<u>772,992</u>
Net Change in Fund Balance	-	-	240,715	240,715
Fund Balance - October 1 (Beginning)	\$ 1,299,004	\$ 1,299,004	\$ 1,299,004	\$ -
Fund Balance - September 30 (Ending)	<u>\$ 1,299,004</u>	<u>\$ 1,299,004</u>	<u>\$ 1,539,719</u>	<u>\$ 240,715</u>

CITY OF ELSA
Balance Sheet - Governmental Funds
As of September 30, 2023

Exhibit H-1

	Special Revenue 2022 HUD Project Funding Grant	Debt Service Interest and Sinking	Capital Projects Pacific Trails Fund	Total Nonmajor Funds
ASSETS:				
1010 Cash and Cash Equivalents	\$ 10,000	\$ 299,565	\$ 31,354	\$ 340,920
1050 Taxes Receivable	-	166,106	-	166,106
1051 Allowance for Uncollectible Taxes (credit)	-	(89,957)	-	(89,957)
1300 Due from Other Funds	-	-	2,719	2,719
TOTAL ASSETS	10,000	375,715	34,074	419,788
LIABILITIES:				
2080 Due to Other Funds	10,000	-	16,000	26,000
TOTAL LIABILITIES	10,000	-	16,000	26,000
2601 Deferred Resource Inflow - Property Taxes	-	76,149	-	76,149
TOTAL DEFERRED INFLOWS OF RESOURCES	-	76,149	-	76,149
FUND BALANCES:				
3480 Restricted for Debt Service	-	299,565	-	299,565
3550 Committed for Construction	-	-	18,074	18,074
TOTAL FUND BALANCES	-	299,565	18,074	317,639
TOTAL LIABILITIES, DEFERRED LIABILITIES & FUND BALANCES	\$ 10,000	\$ 375,715	\$ 34,074	\$ 419,788

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

CITY OF ELSA

Exhibit H-2

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
As of September 30, 2023

		Debt Service	Capital Projects	Total Nonmajor
		Interest and	Pacific Trails	Funds
		Sinking	Fund	
REVENUES:				
5110	Property Taxes	\$ 307,258	\$ -	\$ 307,258
5190	Penalty and Interest on Taxes	18,072	-	18,072
5300	Intergovernmental Revenue and Grants	-	93,368	93,368
5700	Other Revenue	485	-	485
	TOTAL REVENUES	325,816	93,368	419,184
710	Principal on Debt	209,211	-	209,211
720	Interest on Debt	56,220	-	56,220
800	Capital Outlay	-	329,225	329,225
	TOTAL EXPENDITURES	265,431	329,225	594,656
Excess(Deficiency) of Revenues Over(Under)				
	Expenditures	60,385	(235,857)	(175,472)
7915	Transfers In	-	173,139	173,139
8911	Transfers Out	(94,535)	-	(94,535)
	TOTAL OTHER FINANCING SOURCES (USES)	(94,535)	173,139	78,604
	Net Change in Fund Balances	\$ (34,150)	\$ (62,718)	\$ (96,868)
3600	Fund Balance - Beginning	\$ 333,716	\$ 80,791	\$ 414,507
3900	Fund Balance - Ending	\$ 299,565	\$ 18,074	\$ 317,639

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

ADRIAN WEBB, CPA

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, 2023, 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 May 21, 2024.

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 2023-002 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-001, and 2023-003, to be significant deficiencies.

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

**CITY OF ELSA, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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
were not considered material weaknesses? | Yes |
| | |
| C. Noncompliance material to the financial statements noted? | No |

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

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.

Cause: The prior year audit was completed in September 2023, which caused a delay in closing the September 30, 2023 fiscal year.

Effect: The financial information for the audit of September 30, 2023 was delayed the progression of the audit process and consequently delayed the submission of the report to the State.

Recommendation: Management should ensure that financial information is prepared on a timely basis and is accurate, by the time that it is initially requested by the auditor, to prevent any delays in the submission of audit report to the various State agencies.

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

**CITY OF ELSA, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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 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.

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.

Effect: The City incurred expenditures that were not budgeted, or amounts approved by the City Commission for the fiscal year ended September 30, 2023.

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, 2023

2022-001 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: See Current Year Findings.

2022-002 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.

2022-003 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.

2022-004 Compliance over Formal Competitive Procurement

Criteria: Texas Government Code, Section 252.021 established the requirements specifically relating to the monetary threshold (\$50,000) for which the formal competitive procurement process is required.

Condition: Audit procedures identified contracts that were secured in excess of the statutory requirements. These contracts were not subjected to the formal competitive process.

Status: Corrected.

CITY OF ELSA, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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."

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

Corrective Action Plan

The City is currently working on correcting this finding by ensuring financial information is prepared on a timely basis.

Proposed Completion Date – September 30, 2024

Contact Person – Juanita Maciel-Collins, Finance Director

2023-002 – 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, 2024

Contact Person – Juanita Maciel-Collins, Finance Director

2023-003 – 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, 2024

Contact Person – Juanita Maciel-Collins, Finance Director