
CITY OF ELSA, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2019

ADRIAN K. WEBB
CERTIFIED PUBLIC ACCOUNTANT

CITY OF ELSA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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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

Report on the Financial Statements

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, 2019, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 principals 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.

Qualified Opinion

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, 2019, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2022 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 K. Webb
Certified Public Accountant

Edinburg, Texas

June 15, 2022

CITY OF ELSA, TEXAS
Management's Discussion and Analysis

In this section of the Annual Financial and Compliance Report, we, the managers of CITY OF ELSA, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2019. Please read it in conjunction with the Independent Auditors' Report and the City's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

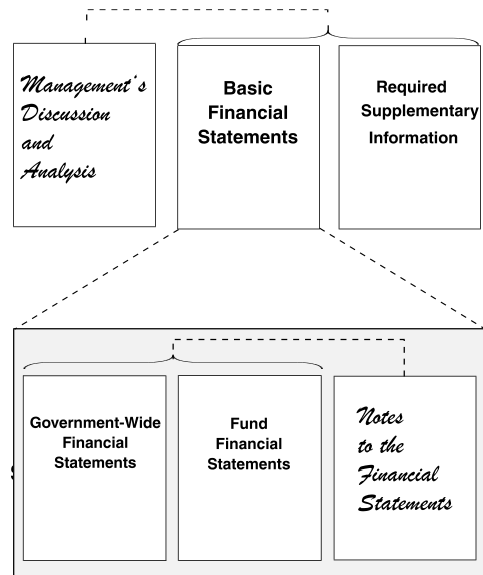
- The City's overall total change in net position was an increase of \$192,191 as of September 30, 2019. This is composed of Governmental Activities' net position of \$3,785,524 and Business-Type Activities' net position of \$14,397,875 for a total of \$18,183,399 ending balance.
- Assets from governmental activities exceeded its liabilities at the end of the most current fiscal year by \$3,785,524 in comparison with \$3,335,390 in the prior year. Assets from Business-Type activities exceeded by 14,397,875 in comparison with 14,655,818 in the prior year.
- Revenues were deficient under expenditures by \$854,510 for the current year ending 2019 compared to 2018 where revenues exceeded expenditures by \$980,245 for Governmental Funds.
- Business-Type activities- Expenses exceeded revenues creating a loss of \$368,514 before interfund transfers for the current period ending 2019.
- The General Fund ended the year with a fund balance of \$633,945.

USING THIS ANNUAL REPORT

This 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 explains some information in the financial statements and provide more detailed date. 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

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

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide 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 and federal grants finance most of these activities.

Reporting the City's Most Significant Funds

Fund Financial Statements

The 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 use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the 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.

The 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

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 \$192,191 during the current fiscal year.

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

	Governmental Activities		Business-Type Activities		Totals		Increase
	2019	2018	2019	2018	2019	2018	(Decrease)
Current Assets							
Cash and Cash Equivalents	\$ 852,115	\$ 761,890	\$ 91,224	\$ 294,945	\$ 943,339	\$ 1,056,835	\$ (113,496)
Accounts Receivable- Taxes	474,271	-	-	-	474,271	-	474,271
Accounts Receivable- Net	80,341	668,416	83,477	190,984	163,818	859,400	(695,582)
Due from Other Funds	85,596	62,312	(85,596)	(62,312)	-	-	-
Due from Others	-	-	3,802	3,802	3,802	3,802	-
Total current assets	1,492,323	1,492,618	92,907	427,419	1,585,230	1,920,037	(334,807)
Capital Assets, Net	3,062,437	2,143,193	14,604,731	14,775,417	17,667,168	16,918,610	748,558
Total Assets	\$ 4,554,760	\$ 3,635,811	\$ 14,697,638	\$ 15,202,836	\$ 19,252,398	\$ 18,838,647	\$ 413,751
Current Liabilities							
Accounts Payable	86,648	173,029	17,082	41,092	103,730	214,121	(110,391)
Payroll Liabilities	22,039	19,787	-	-	22,039	19,787	2,252
Retainage Payable	-	-	-	99,802	-	99,802	(99,802)
Due to Other Funds	-	45,932	-	42,285	-	88,217	(88,217)
Accrued Interest Payable	-	-	-	503	-	503	(503)
Debt Payable within One year	232,310	26,999	92,921	101,275	325,231	128,274	196,957
Total Current Liabilities	340,997	265,747	110,003	284,957	451,000	550,704	(99,704)
Non-Current Liabilities							
Debt Payable- Noncurrent	428,239	34,674	189,760	262,061	617,999	296,735	321,264
Total Non-Current Liabilities	428,239	34,674	189,760	262,061	617,999	296,735	321,264
Total Liabilities	769,236	300,421	299,763	547,018	1,068,999	847,439	221,560
Net Position							
Net Invested in Capital Assets	\$ 2,401,888	\$ 2,081,520	\$ 14,655,818	\$ 14,412,081	\$ 17,057,706	\$ 16,493,601	\$ 564,105
Restricted For:	275,419	275,419	-	-	275,419	275,419	-
Unrestricted	1,108,217	978,451	(257,943)	243,737	850,274	1,222,188	(371,914)
Total Net Position	\$ 3,785,524	\$ 3,335,390	\$ 14,397,875	\$ 14,655,818	\$ 18,183,399	\$ 17,991,208	\$ 192,191

CITY OF ELSA, TEXAS
Management's Discussion and Analysis

Total revenues decreased by \$320,271 and total expenses increased by \$340,814 therefor, the change in net position was a decrease of \$661,085.

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

	Governmental		Business- Type		Totals		Increase
	Activities						(Decrease)
	2019	2018	2019	2018	2019	2018	
Revenues							
Program Revenues							
Charges for Services	\$ 781,064	\$ 729,554	\$ 1,319,844	\$ 1,395,348	\$ 2,100,908	\$ 2,124,902	\$ (23,994)
General Revenues							
Property Taxes, Levied for general purposes	1,508,986	1,543,620	-	-	1,508,986	1,543,620	(34,634)
Sales Taxes	955,544	1,643,780	-	-	955,544	1,643,780	(688,236)
Franchise Taxes	241,459	263,302	-	-	241,459	263,302	(21,843)
Miscellaneous	709,527	1,040,379	3,215	955	712,742	1,041,334	(328,592)
Interest Revenue	92,993	83,800	-	-	92,993	83,800	9,193
Intergovernmental Revenue and Grants	291,161	67,327	-	-	291,161	67,327	223,834
Transfers	205,427	(710,415)	110,571	482,412	315,998	(228,003)	544,001
Transfer of Land (Component Units)	-	-	-	-	-	-	-
Total Revenues	4,786,161	4,661,347	1,433,630	1,878,715	6,219,791	6,540,062	(320,271)
Expenses							
General Government	2,241,588	2,172,072	-	-	2,241,588	2,172,072	69,516
Public Safety	1,049,918	946,403	-	-	1,049,918	946,403	103,515
Public Works	337,421	546,600	-	-	337,421	546,600	(209,179)
Culture and Recreational	251,178	338,298	-	-	251,178	338,298	(87,120)
Economic Development	463,144	300,000	-	-	463,144	300,000	163,144
Highways and Streets	-	-	-	-	-	-	-
Debt Principal	-	2,885	-	-	-	2,885	(2,885)
Debt Interest	20,853	-	-	-	20,853	-	20,853
Water and Sewer	-	-	1,691,573	1,408,603	1,691,573	1,408,603	282,970
Total Expenses	\$ 4,364,102	\$ 4,306,258	\$ 1,691,573	\$ 1,408,603	\$ 6,055,675	\$ 5,714,861	\$ 340,814
Change in Net Position	422,059	355,089	(257,943)	470,112	164,116	825,201	(661,085)
Net Position Beginning	3,363,465	3,152,066	14,655,818	13,977,402	18,019,283	32,675,101	(14,655,818)
Prior Period Adjustment	-	(171,765)	-	208,304	-	36,539	(36,539)
Net Position Ending	\$ 3,785,524	\$ 3,335,390	\$ 14,397,875	\$ 14,655,818	\$ 18,183,399	\$ 17,991,208	\$ 192,191

CITY OF ELSA, TEXAS
Management's Discussion and Analysis

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 \$633,945.

Capital Assets and Debt Administration

Capital Assets

The City ELSA's investments in capital assets for its governmental activities amount \$2,179,812 (net of accumulated depreciation) for 2019 and 2018. Business-type activities amounted to \$14,946,104 for 2019 and 2018. 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)
	2019	2018	2019	2018	2019	2018	
Capital Assets							
Land	\$ 154,191	\$ 154,191	\$ 13,046	\$ 13,046	\$ 167,237	\$ 167,237	\$ -
Construction in Progress	-	277,298	-	1,185,165	-	1,462,463	(1,462,463)
Buildings	681,788	681,788	-	-	681,788	681,788	-
Equipment & Vehicles	2,783,809	2,468,892	842,829	842,829	3,626,638	3,311,721	314,917
Infrastructure/Streets	2,576,840	2,576,840	18,944,222	17,759,057	21,521,062	20,335,897	1,185,165
	<u>\$ 6,196,628</u>	<u>\$ 6,159,009</u>	<u>\$ 19,800,097</u>	<u>\$ 19,800,097</u>	<u>\$ 25,996,725</u>	<u>\$ 25,959,106</u>	<u>\$ 37,619</u>
Less: Accumulated Depreciation	\$ (3,134,191)	\$ (4,015,816)	\$ (5,195,366)	\$ (5,024,680)	\$ (8,329,557)	\$ (9,040,496)	\$ 710,939
Total Capital Assets (Net)	<u>\$ 3,062,437</u>	<u>\$ 2,143,193</u>	<u>\$ 14,604,731</u>	<u>\$ 14,775,417</u>	<u>\$ 17,667,168</u>	<u>\$ 16,918,610</u>	<u>\$ 748,558</u>

CITY OF ELSA, TEXAS
Management's Discussion and Analysis

Long-Term Debt

Below is a table summarizing the long-term debt of the City.

City Elsa's Long-Term Obligations

Table A-4

	Governmental		Business- Type Activity		Totals		Increase (Decrease)
	Activities						
	2019	2018	2019	2018	2019	2018	
Long-Term Obligations							
Bonds Payable (Net)	\$ 428,239	\$ -	\$ 189,760	\$ 262,061	\$ 617,999	\$ 262,061	\$ 355,938
Other Long Term Debt (Net)	-	34,674	-	-	-	34,674	(34,674)
Current Portion	232,310	26,999	92,921	101,275	325,231	128,274	196,957
	\$ 660,549	\$ 61,673	\$ 282,681	\$ 363,336	\$ 943,230	\$ 425,009	\$ 518,221

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 2019/2020 budget.

1. The ad valorem property tax rate was set at \$.605435 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. General operating fund spending budget for 2019 was prepared based on 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 78537.

CITY OF SELSA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Units
ASSETS				
Cash and Cash Equivalents	\$ 852,115	\$ 91,224	\$ 943,339	\$ 448,907
Taxes Receivable, Net	474,271	-	474,271	-
Accounts Receivable, Net	80,341	83,477	163,818	-
Due from Other Funds	85,596	(85,596)	-	-
Due from Others	-	3,802	3,802	-
Capital Assets:				
Land Purchase and Improvements	154,191	13,046	167,237	-
Infrastructure, Net	1,047,796	13,748,856	14,796,652	-
Buildings, Net	595,781	-	595,781	-
Furniture and Equipment, Net	1,264,669	842,829	2,107,498	-
Capital Assets, Net	-	-	-	1,970,651
Total Assets	<u>4,554,760</u>	<u>14,697,638</u>	<u>19,252,398</u>	<u>2,419,558</u>
LIABILITIES				
Accounts Payable	86,648	17,082	103,730	34,679
Wages and Salaries Payable	22,039	-	22,039	-
Noncurrent Liabilities:				
Debt Due Within One Year	232,310	92,921	325,231	82,004
Debt Payable - Noncurrent	428,239	189,760	617,999	245,635
Total Liabilities	<u>769,236</u>	<u>299,763</u>	<u>1,068,999</u>	<u>362,318</u>
NET POSITION				
Net Investment in Capital Assets	2,401,888	14,655,818	17,057,706	1,970,651
Restricted for Debt Service	275,419	-	275,419	-
Unrestricted	1,108,217	(257,943)	850,274	86,589
Total Net Position	<u>\$ 3,785,524</u>	<u>\$ 14,397,875</u>	<u>\$ 18,183,399</u>	<u>\$ 2,057,240</u>

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, 2019

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 2,241,588	\$ -
Public Safety	1,049,918	-
Public Works	337,421	781,064
Culture and Recreation	251,178	-
Conservation and Development	463,144	-
Interest on Debt	20,853	-
Total Governmental Activities	4,364,102	781,064
BUSINESS-TYPE ACTIVITIES:		
Total Business-Type Activities	1,691,573	1,319,844
Total Business-Type Activities	1,691,573	1,319,844
TOTAL PRIMARY GOVERNMENT	\$ 6,055,675	\$ 2,100,908
Component Unit:		
Nonmajor Component Unit	\$ 766,698	\$ -
TOTAL COMPONENT UNITS	\$ 766,698	\$ -

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

General Sales and Use Taxes

Franchise Tax

Penalty and Interest on Taxes

Grants and Contributions

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	Nonmajor Component Units
\$ (2,241,588)	\$ -	\$ (2,241,588)	\$ -
(1,049,918)	-	(1,049,918)	-
443,643	-	443,643	-
(251,178)	-	(251,178)	-
(463,144)	-	(463,144)	-
(20,853)	-	(20,853)	-
<u>(3,583,038)</u>	<u>-</u>	<u>(3,583,038)</u>	<u>-</u>
-	(371,729)	(371,729)	-
-	(371,729)	(371,729)	-
<u>(3,583,038)</u>	<u>(371,729)</u>	<u>(3,954,767)</u>	<u>-</u>
-	-	-	(766,698)
-	-	-	(766,698)
1,135,908	-	1,135,908	-
373,078	-	373,078	-
955,544	-	955,544	831,205
241,459	-	241,459	-
92,993	-	92,993	-
291,161	-	291,161	-
709,527	3,215	712,742	3,321
-	-	-	114
205,427	110,571	315,998	(315,998)
<u>4,005,097</u>	<u>113,786</u>	<u>4,118,883</u>	<u>518,642</u>
422,059	(257,943)	164,116	(248,056)
3,363,465	14,655,818	18,019,283	2,305,293
<u>\$ 3,785,524</u>	<u>\$ 14,397,875</u>	<u>\$ 18,183,399</u>	<u>\$ 2,057,237</u>

CITY OF ELSA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 576,696	\$ 275,419	\$ 852,115
Taxes Receivable	417,167	232,521	649,688
Allowance for Uncollectible Taxes (credit)	(112,636)	(62,781)	(175,417)
Accounts Receivable, Net	80,341	-	80,341
Due from Other Funds	85,596	-	85,596
Total Assets	<u>\$ 1,047,164</u>	<u>\$ 445,159</u>	<u>\$ 1,492,323</u>
LIABILITIES			
Accounts Payable	\$ 86,648	\$ -	\$ 86,648
Wages and Salaries Payable	22,039	-	22,039
Total Liabilities	<u>108,687</u>	<u>-</u>	<u>108,687</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	304,532	169,740	474,272
Total Deferred Inflows of Resources	<u>304,532</u>	<u>169,740</u>	<u>474,272</u>
FUND BALANCES			
Other Assigned Fund Balance	-	275,419	275,419
Unassigned Fund Balance	633,945	-	633,945
Total Fund Balances	<u>633,945</u>	<u>275,419</u>	<u>909,364</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,047,164</u>	<u>\$ 445,159</u>	<u>\$ 1,492,323</u>

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

CITY OF SELSA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2019

Total Fund Balances - Governmental Funds	\$	909,364
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		2,109,595
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 including the 2019 capital outlays and debt principal payments is to increase (decrease) net position.		1,115,623
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, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(349,058)
Net Position of Governmental Activities	\$	3,785,524

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

CITY OF SELSA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 1,156,753	\$ 372,921	\$ 1,529,674
General Sales and Use Taxes	955,544	-	955,544
Franchise Tax	241,459	-	241,459
Penalty and Interest on Taxes	65,547	27,446	92,993
Licenses and Permits	16,975	-	16,975
Intergovernmental Revenue and Grants	143,284	-	143,284
Charges for Services	781,064	-	781,064
Fines	131,706	-	131,706
Contributions & Donations from Private Sources	147,877	-	147,877
Other Revenue	560,846	-	560,846
Total Revenues	<u>4,201,055</u>	<u>400,367</u>	<u>4,601,422</u>
EXPENDITURES:			
Current:			
General Government	2,241,588	-	2,241,588
Public Safety	1,049,918	-	1,049,918
Public Works	337,421	-	337,421
Culture and Recreation	251,178	-	251,178
Conservation and Development	463,144	-	463,144
Debt Service:			
Principal on Debt	172,586	-	172,586
Interest on Debt	20,853	-	20,853
Capital Outlay:			
Capital Outlay	919,244	-	919,244
Total Expenditures	<u>5,455,932</u>	<u>-</u>	<u>5,455,932</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,254,877)</u>	<u>400,367</u>	<u>(854,510)</u>
OTHER FINANCING SOURCES (USES):			
Noncurrent Loans	799,537	-	799,537
Transfers In	865,621	-	865,621
Transfers Out	(259,827)	(400,367)	(660,194)
Total Other Financing Sources (Uses)	<u>1,405,331</u>	<u>(400,367)</u>	<u>1,004,964</u>
Net Change in Fund Balances	150,454	-	150,454
Fund Balance - October 1 (Beginning)	<u>483,491</u>	<u>275,419</u>	<u>758,910</u>
Fund Balance - September 30 (Ending)	<u>\$ 633,945</u>	<u>\$ 275,419</u>	<u>\$ 909,364</u>

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

CITY OF ELSA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

Total Net Change in Fund Balances - Governmental Funds	\$	150,454
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 2019 capital outlays and debt principal payments is to increase (decrease) the change in net position.		629,810
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.		(349,058)
Change in Net Position of Governmental Activities	<u>\$</u>	<u>431,206</u>

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

CITY OF ELSA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2019

	Business Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 91,224
Accounts Receivable, Net	83,477
Due from Others	3,802
Total Current Assets	178,503
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	13,046
Infrastructure	13,748,856
Furniture and Equipment	842,829
Total Noncurrent Assets	14,604,731
Total Assets	14,783,234
LIABILITIES	
Current Liabilities:	
Accounts Payable	17,082
Due to Other Funds	85,596
Notes Payable - Current	92,921
Total Current Liabilities	195,599
Noncurrent Liabilities:	
Loans Payable - Noncurrent	189,760
Total Noncurrent Liabilities	189,760
Total Liabilities	385,359
NET POSITION	
Net Investment in Capital Assets	14,655,818
Unrestricted	(257,943)
Total Net Position	\$ 14,397,875

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

CITY OF ELSA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

EXHIBIT D-2

	Business-Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Services	\$ 1,319,844
Investment Earnings	133
Other Revenue	3,082
Total Operating Revenues	1,323,059
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	495,317
Personnel Services - Employee Benefits	92,879
Purchased Professional & Technical Services	44,002
Purchased Property Services	4,110
Other Operating Costs	723,549
Supplies	149,974
Depreciation	170,686
Debt Service	11,056
Total Operating Expenses	1,691,573
Income (Loss) Before Transfers	(368,514)
Nonoperating Transfers In	110,571
Change in Net Position	(257,943)
Total Net Position - October 1 (Beginning)	14,655,818
 Total Net Position - September 30 (Ending)	 \$ 14,397,875

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, 2019

	Water and Sewer Fund
Cash Flows From Operating Activities:	
Cash Receipts From Customers	\$ 1,430,566
Cash Payments to Employees	(588,196)
Cash Payments for Services	(48,112)
Cash Payments for Supplies	(193,488)
Cash Payments to Other	(834,407)
Net Cash Provided(Used) by Operating Activities	(233,637)
Cash Flow From Capital and Related Financing Activities:	
Principal Paid on Long-Term Debt	(80,655)
Net Cash Provided(Used) by Capital and Related Financing Activities	(80,655)
Cash Flow From Non-Capital and Related Financing Activities:	
Transfers In From Other Funds	110,571
Net Cash Flow From Non-Capital and Related Financing Activities	110,571
Net Increase (Decrease) in Cash and Cash Equivalents	(203,721)
Cash and Cash Equivalents, Beginning of Year	294,945
Cash and Cash Equivalents, End of Year	91,224
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income(Loss)	(368,514)
Depreciation Expenses	170,686
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
(Increase) Decrease in Accounts Receivable	107,507
(Increase) Decrease in Due From Other Funds	19,482
Increase (Decrease) in Accounts Payable	(24,010)
Increase (Decrease) in Retainage Payable	(99,802)
Increase (Decrease) in Interfund Liabilities	85,093
Increase (Decrease) in other Liabilities	46,607
Total Adjustments	134,877
Net Cash Provided (Used) by Operating Activities	\$ (233,637)

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Elsa, Texas was incorporated on November 27, 1926. 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, 2019

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 Industrial Development Corporation (the “Corporation”) is a Section 4A Non-Profit Industrial Development Corporation governed by a five-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 industrial 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 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 also 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 member to the Housing Authority and has a moral responsibility for debts. The City of Elsa 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.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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

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.

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*.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

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

The City has reported the following major proprietary funds:

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 does not report any nonmajor funds.

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 at September 30, 2019.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

I. ASSETS LIABILITIES, AND NET POSITION

1. 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.

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.

2. Credit Risks

Custodial Credit Risk

Deposits and Certificates of Deposits

Custodial credit risk refers to the risk that in the event of a bank failure, the City's deposits may not be returned to it.

In accordance with the City's fiscal policy as approved by the Board, the City maintains demand and time deposits through a local depository bank that are members of the Federal Reserve System.

As of September 30, 2019, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,193,271 for the primary government and \$462,468 for the discretely presented component units, for an aggregate bank balance was \$1,655,740. The City's cash deposits at September 30, 2019 and during the period ended September 30, 2019, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Interest Rate Risk

The City has not developed a formal investment policy limiting investment maturities as a means of limiting its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The City's policy limits the deposits in any one-bank institution to their extent of FDIC coverage. This policy does not extend to contributions or donations from the Community.

Fair Values of Financial Instruments

The following methods of assumptions were used by the City in estimating its fair value disclosures for financial instruments:

- Cash, cash equivalents, short-term investments, and promises to give are due in less than one year. The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

State statutes authorize the City to invest in obligations of the United States of America, State of Texas, obligations of states, agencies, counties, cities, and any other political subdivisions of any state having a rating no less than A or its equivalent by a nationally recognized investment rating

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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

firm, certificates of deposit issued by state and national banks guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) and/or further collateralized by additional pledged securities above the FDIC limits, and fully collateralized direct repurchased agreements.

3. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets, because their use is limited by applicable bond covenants or City Ordinance. Funds restricted include amounts set aside to subsidize potential deficiencies from the enterprise funds operations that could adversely affect debt service payments, amounts set aside from the proceeds of revenue bond issuances that are required for payment of construction, amounts set aside for debt service payments over the succeeding twelve months, amounts set aside for unexpected contingencies or to fund asset replacements, as well as amounts set aside from customer's deposits. The bond covenant from the United States Department of Agriculture Rural Development required a monthly allocation to the reserve account of \$579 until the account reaches \$33,966. Prior to September 30, 2019, the bond matured therefor releasing the restriction.

4. Property Taxes

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 so as 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.

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.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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	3-10 years

As of September 30, 2018 the City has not adhered to the polices listed above. Refer to finding #2019-002 in the Schedule of Findings and Responses of this report.

6. Short-Term Inter-fund Receivables and Payables/Internal Balances

Short-term lending/borrowing between funds that result in amounts outstanding at the end of the fiscal year are referred to as “due to/from other funds”. “Due to/from other funds”, represent the current portion of inter-fund loans. With respect to the government-wide financial statements, any residual balances outstanding between the governmental activities and business-type activities are reported as “internal balances”.

7. 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 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 which, based on experience, will be paid from available

**CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Inter-fund Transactions

Inter-fund 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 inter-fund 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.

NOTE 2 DEPOSITS AND INVESTMENT

A. Investments

As of September 30, 2019, the City had no investments:

Investment Maturities (In Years)

Investment Type	Fair Value	Less than 1	1 to 2	2 to 3
Investment Pools:				
N/A	-	-	-	-
Total Fair Value	\$ -	\$ -	\$ -	\$ -

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 2 DEPOSITS AND INVESTMENT (CONTINUED)

Interest Rate Risk- In accordance with state law and City policy, the City does not purchase any investments with maturities greater than 10 years.

Credit Risk- In accordance with state law and the City's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, countries, etc. must be rated at least A. The City's investments in investment pools were rated AAA.

Concentration of Credit Risk- The City does not place a limit on the amount the City may invest in any one issuer. The City does not have a concentration of credit risk.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a custodial credit risk.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

Foreign Currency Risk – This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy – The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

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 \$1,560,207 were assessed on property values totaling \$176,665,233 using a tax rate of \$0.605435 (\$0.531372 for general operations and \$0.074063 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 or early payment of taxes. The City's taxes are billed and collected by the Hidalgo County Tax Assessor Collector.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 4 DISSAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables are recorded net of allowance for uncollectible accounts as follows:

	<u>Taxes</u>	<u>Due From Other Funds</u>	<u>Utilities</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Funds:					
General Fund	\$ 417,167	\$ 85,596	\$ -	\$ 80,341	\$ 583,105
Debt Service Fund	232,521	-	-	-	232,521
Allowance for Uncollectible	<u>(175,417)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(175,417)</u>
Total - Governmental Activities	<u>\$ 474,271</u>	<u>\$ 85,596</u>	<u>\$ -</u>	<u>\$ 80,341</u>	<u>\$ 640,209</u>
Business-Type Activities:					
Enterprise Fund	\$ -	\$ -	\$ 165,962	\$ 3,802	\$ 169,765
Allowance for Uncollectible	<u>-</u>	<u>-</u>	<u>(82,485)</u>	<u>-</u>	<u>(82,485)</u>
Total Business-Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,477</u>	<u>\$ 3,802</u>	<u>\$ 87,279</u>

Accounts Payable were recorded as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Funds:					
General Fund	\$ 86,648	\$ 22,039	\$ -	\$ -	\$ 108,687
Total - Governmental Funds	<u>\$ 86,648</u>	<u>\$ 22,039</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,687</u>
Business-Type Activities:					
Enterprise Fund	\$ 17,082	\$ -	\$ (85,596)	\$ -	\$ (68,514)
Total Business-Type Funds	<u>\$ 17,082</u>	<u>\$ -</u>	<u>\$ (85,596)</u>	<u>\$ -</u>	<u>\$ (68,514)</u>
Component Units					
Municipal Development	\$ (1,667)	\$ -	\$ -	\$ -	\$ (1,667)
4-B Economic Development	<u>(33,012)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,012)</u>
Total Component Units	<u>\$ (34,679)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (34,679)</u>

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 5 CAPITAL ASSETS

Capital Assets for governmental activities are as follows:

	Balance October 1, 2018	Additions	Retirements/ Adjustments	Balance September 30, 2019
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 154,191	\$ -	\$ -	\$ 154,191
Construction in Progress	277,298	\$ -	277,298	-
Total Capital assets, not being depreciated	<u>431,489</u>	<u>-</u>	<u>277,298</u>	<u>154,191</u>
Capital Asset being depreciated:				
Buildings	681,788	-	-	681,788
Furniture and Equipment	2,468,892	314,917	-	2,783,809
Infrastructure	2,576,840	-	-	2,576,840
Total capital assets, being depreciated	<u>5,727,520</u>	<u>314,917</u>	<u>-</u>	<u>6,042,437</u>
Less accumulated depreciation for:				
Buildings	(86,007)	-	-	(86,007)
Furniture and Equipment	(1,519,140)	-	-	(1,519,140)
Infrastructure	(1,529,044)	-	-	(1,529,044)
Total accumulated depreciation	<u>(3,134,191)</u>	<u>-</u>	<u>-</u>	<u>(3,134,191)</u>
Total capital assets being depreciated, net	<u>2,593,329</u>	<u>314,917</u>	<u>-</u>	<u>2,908,246</u>
Governmental activities capital assets, net	<u>3,024,818</u>	<u>314,917</u>	<u>277,298</u>	<u>3,062,437</u>

**CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 5 CAPITAL ASSETS (CONTINUED)

Capital Assets for Business-type activities are as follows:

	Balance October 1, 2018	Additions	Retirements/ Adjustments	Balance September 30, 2019
Business-type Activities				
Capital Assets, not being depreciated				
Land	13,046	-	-	13,046
Construction in Progress	1,185,165	-	1,185,165	-
Total capital assets, not being depreciated	<u>1,198,211</u>	<u>-</u>	<u>1,185,165</u>	<u>13,046</u>
Capital Assets, being depreciated				
Furniture and Equipment	842,829	-	-	842,829
Infrastructure	17,759,057	1,185,165	-	18,944,222
Total capital assets, being depreciated	<u>18,601,886</u>	<u>1,185,165</u>	<u>-</u>	<u>19,787,051</u>
Less accumulated depreciation for:				
Capital Assets, being depreciated	(5,024,680)	(170,686)	-	(5,195,366)
Total accumulated depreciation	<u>(5,024,680)</u>	<u>(170,686)</u>	<u>-</u>	<u>(5,195,366)</u>
Total capital assets, being depreciated, net	<u>13,577,206</u>	<u>1,014,479</u>	<u>-</u>	<u>14,591,685</u>
Business-type activities capital assets, net	<u>\$ 14,775,417</u>	<u>\$ 1,014,479</u>	<u>\$ 1,185,165</u>	<u>\$ 14,604,731</u>

Depreciation and amortization was charged to business-type activity as follows:

Business-type Activities:

Water and Sewer Fund	<u>\$ 170,686</u>
Total Depreciation Expense - Business-type Activities	<u><u>\$ 170,686</u></u>

The City's perpetual records do not accurately reflect the capital assets on hand and accumulated depreciation for current year ending September 30, 2019. Refer to finding #2019-002 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, 2019

NOTE 6 INTERFUND TRANSACTIONS AND BALANCES

Inter-fund balances as of September 30, 2019, consisted of the following individual fund balances:

	Due From Other Funds	Due To Other Funds
General Fund:		
Water & Sewer Fund	85,596	-
Total General Fund	85,596	-
Enterprise Funds:		
General Fund	-	85,596
	-	85,596
Total	\$ 85,596	\$ 85,596

NOTE 7 INTERFUND TRANSFERS

The inter-fund balances as of September 30, 2019, are generally short-term loans to cover temporary cash flows and reimbursements for various funds. Inter-fund transfers during the year ended September 30, 2019, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 976,192	\$ 259,827
Utility Fund	-	400,367
Debt Service Fund	-	-
Component Units	149,256	465,255
Total	\$ 1,125,448	\$ 1,125,448

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 8 LONG-TERM DEBT

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
<u>Leases Payable</u>				
Government Capital	-	499,837	25,340	474,497
Ford Motor Credit	33,598		24,168	9,430
KS State Bank		272,917	96,295	176,622
Total bonds and leases payable	<u>33,598</u>	<u>772,754</u>	<u>145,803</u>	<u>660,549</u>
Component Units:				
<u>Notes Payable</u>				
Texas National Bank	-	465,250	137,611	327,639
Total other long-term liabilities	-	465,250	137,611	327,639
Total Governmental Activities	<u>33,598</u>	<u>1,238,004</u>	<u>283,414</u>	<u>988,188</u>
	Beginning Balance	Additions	Reductions	Ending Balance
Business-Type Activities				
<u>Bonds, Notes and Leases Payable</u>				
FmHA Certificate of Obligation	31,000	-	31,000	-
Government Capital	349,046	-	66,365	282,681
Total bonds and leases payable	<u>380,046</u>	<u>-</u>	<u>97,365</u>	<u>282,681</u>
Total Business-Type Activities	<u>380,046</u>	<u>-</u>	<u>97,365</u>	<u>282,681</u>

Governmental Fund Activities – Capital Leases

Government Capital

The City of Elsa, Texas, has financed the acquisition of vehicles. 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 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, 2019, is \$474,497.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 8 LONG-TERM DEBT (CONTINUED)

Ford Motor Credit

On April 28, 2014, the City of Elsa, Texas, entered into a lease purchase agreement with Ford Motor Credit for financing the acquisition of (2) Ford Police Interceptors in the amount of \$67,645. The lease is payable in sixteen quarterly payment installments of \$6,042, including interest of 5.45%. The total outstanding balance as of September 30, 2019 is \$9,430.

KS State Bank

The Government Obligation Contract was dated March 1, 2019, between the City and KS Statebank was used for the purchase of three police vehicles for a value of \$272,917. The contract bears interest of 17% per annum payable on March 1 until maturity on 2021.

Total Governmental Fund Capital Leases were as follows for year ending September 30, 2019:

Year Ended				Total
<u>September 30,</u>	<u>Principial</u>	<u>Interest</u>		<u>Requirements</u>
2020	\$ 232,310	\$ 23,610		\$ 255,920
2021	135,979	20,956		156,935
2022	47,669	12,971		60,640
2023	49,635	11,005		60,640
2024	51,236	9,404]	60,640
2025-Thereafter	143,720	37,616		181,336
Total	\$ 660,549	\$ 115,562		\$ 776,111

Component Units – Note Payable

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 \$9,348.19 including interest.

	<u>Fiscal Year Ending</u>	<u>Contract</u>
	<u>September 30,</u>	<u>Payment</u>
	2020	112,178
	2021	112,178
	2022	112,178
	2023	112,178
	2024	28,045
Total minimum lease payments		476,758
Less: Amount representing Interest		(149,119)
Present Value of minimum lease payments		<u>327,639</u>

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 8 LONG-TERM DEBT (CONTINUED)

Proprietary Fund- Business-Type Activities

The following is a summary of enterprise revenue bond transactions of the City for the year ended September 30, 2019:

	October 1, 2018	Additions	Reductions	September 30, 2019	Due Within One Year
FmHA Certificates of Obligation	\$ 31,000	\$ -	\$ (31,000)	\$ -	\$ -

The above FmHA certificate of obligation was used for water treatment plant and distribution expansion and other capital improvement. This certificate of obligation matured in the current year.

Government Capital

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. The outstanding balance as of September 30, 2019, is \$349,046.

	Fiscal Year Ending September 30,	Business-Type Activities
	2020	78,883
	2021	78,883
	2022	78,883
	2023	60,060
Total minimum lease payments		296,709
Less: Amount representing interest		(14,028)
Present Value of minimum lease payments		\$ 282,681

NOTE 9 DEFERRED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the governmental funds reported unavailable property tax revenue of \$304,532.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 10 URBAN COUNTY

The City of Elsa, Texas and other municipalities in Hidalgo County participate in the Hidalgo County's "Urban County" Program. By being designated as an "Urban County", Hidalgo County and the participating cities are entitled to receive a formula share of entitlement CDBG program funds from the U.S. Department of Housing and Urban Development (HUD).

Monies received from HUD are allocated to the cities participating in the program based on agreed upon formulas. The County is responsible for the administration of the program and is ultimately responsible for including the grant activity related to the Urban County Program in its audit report as per CDBG guidelines. All monies received from HUD on this program are handled by the County. The County pays vendors or contractors directly for goods or services which benefit the different cities. The County also reimburses the Cities for general administration costs incurred by those cities. Monies paid by the Urban County Program are considered federal assistance and is included in the City's schedule of expenditures of federal awards using CFDA number 14.218.

NOTE 11 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 by the grantor agency. Any disallowed costs resulting from such audit could become the responsibility of the City and repayment could be requested from nonfederal resources.

NOTE 12 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 13 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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 13 COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Excess of expenditures over appropriations

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

<u>Fund Name</u>	<u>Department/Expenditure</u>	<u>Amount of Excess</u>
General Fund	General Government	(\$ 399,579)
Culture and Recreation	General Government	(\$ 6,925)

NOTE 15 EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated events and transactions for potential recognition or disclosure through June 15, 2022, the date the financial statements were available to be issued.

CITY OF SELSA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,156,614	\$ 1,156,614	\$ 1,156,753	\$ 139
General Sales and Use Taxes	845,953	845,953	955,544	109,591
Franchise Tax	258,425	258,425	241,459	(16,966)
Penalty and Interest on Taxes	92,444	92,444	65,547	(26,897)
Licenses and Permits	54,869	54,869	16,975	(37,894)
Intergovernmental Revenue and Grants	145,000	145,000	143,284	(1,716)
Charges for Services	1,322,655	1,322,655	781,064	(541,591)
Fines	140,823	140,823	131,706	(9,117)
Contributions & Donations from Private Sources	-	-	147,877	147,877
Other Revenue	480,345	480,345	560,846	80,501
Total Revenues	<u>4,497,128</u>	<u>4,497,128</u>	<u>4,201,055</u>	<u>(296,073)</u>
EXPENDITURES:				
Current:				
General Government	1,842,009	1,842,009	2,241,588	(399,579)
Public Safety	1,271,162	1,271,162	1,049,918	221,244
Public Works	400,542	400,542	337,421	63,121
Culture and Recreation	244,253	244,253	251,178	(6,925)
Conservation and Development	761,600	761,600	463,144	298,456
Debt Service:				
Principal on Debt	175,000	175,000	172,586	2,414
Interest on Debt	21,000	21,000	20,853	147
Capital Outlay:				
Capital Outlay	-	-	919,244	(919,244)
Total Expenditures	<u>4,715,566</u>	<u>4,715,566</u>	<u>5,455,932</u>	<u>(740,366)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(218,438)</u>	<u>(218,438)</u>	<u>(1,254,877)</u>	<u>(1,036,439)</u>
OTHER FINANCING SOURCES (USES):				
Noncurrent Loans	-	-	799,537	799,537
Transfers In	-	-	865,621	865,621
Transfers Out	-	-	(259,827)	(259,827)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,405,331</u>	<u>1,405,331</u>
Net Change	(218,438)	(218,438)	150,454	368,892
Fund Balance - October 1 (Beginning)	<u>483,491</u>	<u>483,491</u>	<u>483,491</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 265,053</u>	<u>\$ 265,053</u>	<u>\$ 633,945</u>	<u>\$ 368,892</u>

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

CITY OF SELSA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	BUDGET (See Note)	
REVENUES:				
Taxes:				
Property Taxes	\$ 375,000	\$ 375,000	\$ 372,921	\$ (2,079)
Penalty and Interest on Taxes	25,000	25,000	27,446	2,446
Total Revenues	400,000	400,000	400,367	367
OTHER FINANCING SOURCES (USES):				
Transfers Out	(400,000)	(400,000)	(400,367)	(367)
Total Other Financing Sources (Uses)	(400,000)	(400,000)	(400,367)	(367)
Change in Fund Balance	-	-	-	-
Fund Balance - October 1 (Beginning)	275,419	275,419	275,419	-
Fund Balance - September 30 (Ending)	\$ 275,419	\$ 275,419	\$ 275,419	\$ -

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 Honorable Mayor and City Commission of the
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, discretely presented component units, each major fund, and the aggregate remaining fund information of City of Elsa as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise City of Elsa's basic financial statements, and have issued our report thereon dated June 15, 2022.

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 responses as items #2019-001 and #2019-002 to be material weaknesses.

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 accompany schedule of findings and questioned costs as items # 2019-003 through #2019-007 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Elsa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial 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's Response to Findings

City of Elsa's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Elsa's 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 K. Webb
Certified Public Accountant

Edinburg, Texas

June 15, 2022

**CITY OF ELSA, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

I. Summary of the Auditor’s Results:

- | | |
|---|----------|
| A. The type of report issued:
opinion | Modified |
| B. Internal control over financial statements: | |
| Material Weakness(es) identified? | Yes |
| Significant Deficiency(ies) identified which
were not considered material weaknesses? | Yes |
| C. Noncompliance material to the financial statements noted? | No |
| D. The City did not qualify for a Single Audit as defined by the Uniform Guidance (2 CFR section 200.516(a)). | |

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

2019-001 Controls over Reporting of Financial Information to State Agency

Criteria: Texas Local Government Code 103.003 require 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 delay was caused by key administrative changes and the COVID-19 pandemic and its effect on all entities preparing the audit.

Effect: The COVID-19 Pandemic and its effect on municipalities, delayed the completion of the audit and consequently delayed the submission of the report to the State.

Recommendation: Management should ensure that financial information is prepared on a timely 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, 2019

2019-002 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 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

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.

2019-003 Controls over Accounting Records

Criteria: There should be a complete set of accounting records for each fund which includes: General Fund, Water & Sewer Fund, Debt Service Fund, Industrial Development Fund, Economic Development Fund, and Urban County Grant Fund. Each fund should have a complete general ledger that includes proper cash receipts, cash disbursements, and adjusting journal entries. These journals should then have a detail description of transactions, i.e. date of check or deposit, check number vendor/customer name, and amount of check or deposit.

Condition: The City has a general ledger that includes all funds that were co-mingled.

Effect: It is very difficult to separate out transactions for each fund and to create individual fund financial statements.

Recommendation: We recommend that City record all transactions of each fund in the accounting software and classify revenues and expenditures into separate fund accounts so as to not co-mingle accounts. We also recommend that the City implement a formal accounting system, policy and procedures over its accounting functions for monthly account analysis. Such an approach would detail all of the critical steps in recording transactions and schedule preparation. We further recommend that the City establish a target date to complete the year-end closing, possibly sixty days subsequent to year-end. Strict adherence to this schedule should be required since this will allow for timely preparation of year-end financial statements.

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, 2019

2019-004 Public Funds Investment Act

Criteria: The Public Funds Investment Act mandates that the investment officer attend an investment training not less than once in a two-year period and receive not less than ten hours of instruction related to investment responsibilities under the Act within twelve months after taking office or assuming duties. The Act also requires that the governing board perform annual reviews of the investment policy and strategy.

Condition: We noted that the investment officer did not attend the required hours of continuing education. No documentation was maintained to demonstrate that the Board performed an annual review of the investment policy and strategy.

Effect: The City is not in compliance with the Public Funds Investment Act.

Recommendation: We recommend that the City's investment officer attend the required hours to be in compliance with the Act and that review and approval of the City's investment policy and strategies be documented in the City Commission minutes annually.

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

2019-005 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, 2019.

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.

2019-006 Internal Control

Criteria: The City's operations for the Utility Fund provides for approximately \$1.3 Million in user charges. Accordingly, the City should have various safeguards, protocols, and other internal controls to ensure a full accountability of the financial activities.

Condition: The City is incorporating such controls, however there is a need for additional segregation of duties and other similar controls in order to ensure that the operations of this fund satisfy expectations for governmental entities.

CITY OF ELSA, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

2019-006 Internal Control(continued)

Effect: The City's controls in this area require additional review and further development of controls to ensure full accountability of these activities.

Recommendation: The City should ensure management's review of controls in this area and further development of controls to ensure full accountability of these activities.

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

2019-007 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.

Effect: The City did not comply with the requirements prescribed by the Government Code Section 252.021.

Recommendation: City management should constantly monitor procurement activity ongoing to ensure compliance with these requirements. In particular, those contracts that recur on a yearly basis should be monitored for compliance.

CITY OF ELSA, TEXAS
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

2019-001 Controls over Reporting of Financial Information to State Agency

Criteria: Texas Local Government Code 103.003 require 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.

2019-002 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 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.

2019-003 Controls over Accounting Records

Criteria: There should be a complete set of accounting records for each fund which includes: General Fund, Water & Sewer Fund, Debt Service Fund, Industrial Development Fund, Economic Development Fund, and Urban County Grant Fund. Each fund should have a complete general ledger that includes proper cash receipts, cash disbursements, and adjusting journal entries. These journals should then have a detail description of transactions, i.e. date of check or deposit, check number vendor/customer name, and amount of check or deposit.

Condition: The City has a general ledger that includes all funds that were co-mingled.

Status: See Current Year Findings.

2019-004 Public Funds Investment Act

Criteria: The Public Funds Investment Act mandates that the investment officer attend an investment training not less than once in a two-year period and receive not less than ten hours of instruction related to investment responsibilities under the Act within twelve months after taking office or assuming duties. The Act also requires that the governing board perform annual reviews of the investment policy and strategy.

Condition: We noted that the investment officer did not attend the required hours of continuing education. No documentation was maintained to demonstrate that the Board performed an annual review of the investment policy and strategy.

Status: See Current Year Findings.

CITY OF ELSA, TEXAS
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

2019-005 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.

2019-006 Internal Control

Criteria: The City's operations for the Utility Fund provides for approximately \$1.3 Million in user charges. Accordingly, the City should have various safeguards, protocols, and other internal controls to ensure a full accountability of the financial activities.

Condition: The City is incorporating such controls, however there is a need for additional segregation of duties and other similar controls in order to ensure that the operations of this fund satisfy expectations for governmental entities.

Status: See Current Year Findings.