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**CITY OF ELSA, TEXAS**  
**AUDITED ANNUAL FINANCIAL REPORT**  
**FOR YEAR ENDED SEPTEMBER 30, 2021**

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**ADRIAN K. WEBB**  
**CERTIFIED PUBLIC ACCOUNTANT**

CITY OF ELSA, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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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, 2021, 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, 2021, 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 Information*

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

The combining and individual nonmajor fund financial statements are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 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

September 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, 2021. Please read it in conjunction with the Independent Auditors' Report and the City's Basic Financial Statements.

**FINANCIAL HIGHLIGHTS**

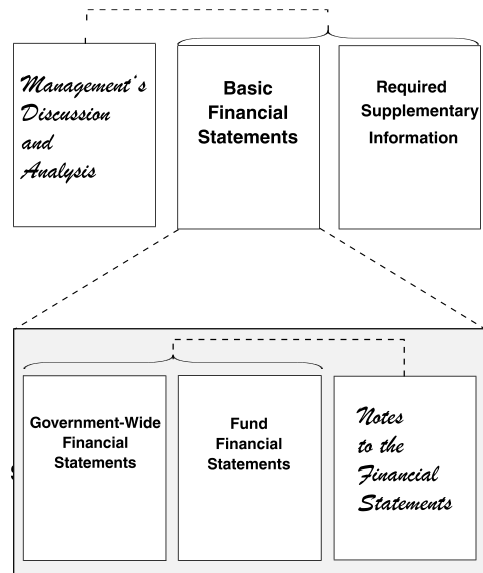
- The City's overall total change in net position was an increase of \$937,302 as of September 30, 2021. This is composed of Governmental Activities' net position of \$5,259,784 and Business-Type Activities' net position of \$14,423,519 for a total of \$19,683,303 ending balance.
- Assets from governmental activities exceeded its liabilities at the end of the most current fiscal year by \$5,259,784 in comparison with \$4,426,117 in the prior year. Assets from Business-Type activities exceeded by 14,423,519 in comparison with 14,319,884 in the prior year.
- Revenues exceeded expenditures by \$686,256 for the current year ending 2021 in comparison to 2020 where revenues also exceeded expenditures by \$517,360 for Governmental Funds.
- Business-Type activities- Expenses exceeded revenues creating a loss of \$198,894 before interfund transfers for the current period ending 2021.
- The General Fund ended the year with a fund balance of \$1,106,883.

**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 \$937,302 during the current fiscal year.

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

	Governmental Activities		Business-Type Activities		Totals		Increase
	2021	2020	2021	2020	2021	2020	(Decrease)
<b>Current Assets</b>							
Cash and Cash Equivalents	\$ 2,566,168	\$ 1,275,657	\$ 301,202	\$ 107,836	\$ 2,867,370	\$ 1,383,493	\$ 1,483,877
Accounts Receivable- Net	465,108	492,958	54,142	128,329	519,250	621,287	(102,037)
Due from Other Funds	86,323	111,186	(86,323)	(148,807)	-	(37,621)	37,621
Due from Others	-	-	9,213	3,802	9,213	3,802	5,411
Total current assets	3,117,599	1,879,801	278,234	91,160	3,395,833	1,970,961	1,424,872
Capital Assets, Net	3,513,470	3,190,142	14,263,359	14,434,045	17,776,829	17,624,187	152,642
Total Assets	\$ 6,631,069	\$ 5,069,943	\$ 14,541,593	\$ 14,525,205	\$ 21,172,662	\$ 19,595,148	\$ 1,577,514
<b>Current Liabilities</b>							
Accounts Payable	2,294	34,339	2,608	13,633	4,902	47,972	(43,070)
Payroll Liabilities	12,213	10,663	-	-	12,213	10,663	1,550
Unearned Revenues	963,295	73,101	-	-	963,295	73,101	890,194
Debt Payable within One year	43,302	132,240	76,437	74,479	119,739	206,719	(86,980)
Total Current Liabilities	1,021,104	250,343	79,045	88,112	1,100,149	338,455	761,694
<b>Non-Current Liabilities</b>							
Debt Payable- Noncurrent	350,181	393,483	39,029	117,209	389,210	510,692	(121,482)
Total Non-Current Liabilities	350,181	393,483	39,029	117,209	389,210	510,692	(121,482)
Total Liabilities	1,371,285	643,826	118,074	205,321	1,489,359	849,147	640,212
<b>Net Position</b>							
Net Invested in Capital Assets	\$ 3,119,987	\$ 2,664,419	\$ 14,242,357	\$ 14,242,357	\$ 17,362,344	\$ 16,906,776	\$ 455,568
Restricted For:	623,207	323,055	-	-	623,207	323,055	300,152
Unrestricted	1,516,590	1,438,643	181,162	77,527	1,697,752	1,516,170	181,582
<b>Total Net Position</b>	<b>\$ 5,259,784</b>	<b>\$ 4,426,117</b>	<b>\$ 14,423,519</b>	<b>\$ 14,319,884</b>	<b>\$ 19,683,303</b>	<b>\$ 18,746,001</b>	<b>\$ 937,302</b>



**CITY OF ELSA, TEXAS**  
**Management's Discussion and Analysis**

Total revenues increased by \$972,080 and total expenses decreased by \$615,618 therefor, the change in net position was an increase of \$584,509.

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

	Governmental		Business- Type		Totals		Increase (Decrease)
	Activities						
	2021	2020	2021	2020	2021	2020	
Revenues							
Program Revenues							
Charges for Services	\$ 547,274	\$ 620,770	\$ 1,511,556	\$ 1,313,721	\$ 2,058,830	\$ 1,934,491	\$ 124,339
General Revenues							
Property Taxes, Levied for general purposes	1,622,327	1,468,051	-	-	1,622,327	1,468,051	154,276
Sales Taxes	1,046,933	1,014,953	-	-	1,046,933	1,014,953	31,980
Franchise Taxes	226,150	265,690	-	-	226,150	265,690	(39,540)
Miscellaneous	1,170,871	791,756	1,050	4,585	1,171,921	796,341	375,580
Interest Revenue	80,341	80,342	-	-	80,341	80,342	(1)
Intergovernmental Revenue and Grants	916,956	416,067	-	-	916,956	416,067	500,889
Transfers	(287,361)	(94,179)	138,642	120,903	(148,719)	26,724	(175,443)
<b>Total Revenues</b>	<b>5,323,491</b>	<b>4,563,450</b>	<b>1,651,248</b>	<b>1,439,209</b>	<b>6,974,739</b>	<b>6,002,659</b>	<b>972,080</b>
Expenses							
General Government	3,784,879	1,341,473	-	-	3,784,879	1,341,473	2,443,406
Public Safety	289,320	1,293,215	-	-	289,320	1,293,215	(1,003,895)
Public Works	68,594	442,827	-	-	68,594	442,827	(374,233)
Culture and Recreational	67,882	127,183	-	-	67,882	127,183	(59,301)
Health and Welfare	254,200	699,516	-	-	254,200	699,516	(445,316)
Debt Interest	23,599	18,643	-	-	23,599	18,643	4,956
Water and Sewer	-	-	1,536,092	1,517,200	1,536,092	1,517,200	18,892
<b>Total Expenses</b>	<b>\$ 4,488,474</b>	<b>\$ 3,922,857</b>	<b>\$ 1,536,092</b>	<b>\$ 1,517,200</b>	<b>\$ 6,024,566</b>	<b>\$ 5,440,057</b>	<b>\$ 584,509</b>
Change in Net Position	835,017	640,593	115,156	(77,991)	950,173	562,602	387,571
Net Position Beginning	4,426,117	3,785,524	14,319,884	14,397,875	18,746,001	33,065,885	(14,319,884)
Prior Period Adjustment	(1,350)	-	(11,521)	-	(12,871)	-	(12,871)
<b>Net Position Ending</b>	<b>\$ 5,259,784</b>	<b>\$ 4,426,117</b>	<b>\$ 14,423,519</b>	<b>\$ 14,319,884</b>	<b>\$ 19,683,303</b>	<b>\$ 18,746,001</b>	<b>\$ 937,302</b>

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 \$1,106,883.

**Capital Assets and Debt Administration**

**Capital Assets**

The City ELSA's investments in capital assets for its governmental activities amount \$3,513,470 (net of accumulated depreciation) for 2021. Business-type activities amounted to \$14,263,359 for 2021. 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)
	2021	2020	2021	2020	2021	2020	
Capital Assets							
Land	\$ 154,191	\$ 154,191	\$ 13,046	\$ 13,046	\$ 167,237	\$ 167,237	\$ -
Construction in Progress	-	-	-	1,185,165	-	1,185,165	(1,185,165)
Buildings	681,788	681,788	-	-	681,788	681,788	-
Furniture and Equipment	3,234,842	2,911,514	842,829	842,830	4,077,671	3,754,344	323,327
Infrastructure/Streets	2,576,840	2,576,840	18,944,582	17,759,057	21,521,422	20,335,897	1,185,525
	<u>\$ 6,647,661</u>	<u>\$ 6,324,333</u>	<u>\$ 19,800,457</u>	<u>\$ 19,800,098</u>	<u>\$ 26,448,118</u>	<u>\$ 26,124,431</u>	<u>\$ 323,687</u>
Less: Accumulated Depreciation	\$ (3,134,191)	\$ (3,134,191)	\$ (5,537,098)	\$ (5,366,052)	\$ (8,671,289)	\$ (8,500,243)	\$ (170,686)
<b>Total Capital Assets (Net)</b>	<u><b>\$ 3,513,470</b></u>	<u><b>\$ 3,190,142</b></u>	<u><b>\$ 14,263,359</b></u>	<u><b>\$ 14,434,046</b></u>	<u><b>\$ 17,776,829</b></u>	<u><b>\$ 17,624,188</b></u>	<u><b>\$ 152,641</b></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						
	2021	2020	2021	2020	2021	2020	
Long-Term Obligations							
Leases Payable (Net)	\$ 350,181	\$ 393,483	\$ 39,029	\$ 117,209	\$ 389,210	\$ 510,692	\$ (121,482)
Current Portion	43,302	132,240	76,437	74,479	119,739	206,719	(86,980)
	<b>\$ 393,483</b>	<b>\$ 525,723</b>	<b>\$ 115,466</b>	<b>\$ 191,688</b>	<b>\$ 508,949</b>	<b>\$ 717,411</b>	<b>\$ (208,462)</b>

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

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

The City's elected and appointed officials considered many factors when setting the fiscal year end 2020/2021 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 2021 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: P.O. Box 427, Elsa, Texas 78537.

CITY OF ELSA, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2021

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Nonmajor Component
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 2,566,168	\$ 301,202	\$ 2,867,370	\$ 828,986
Taxes Receivable, Net				
Accounts Receivable- Net	465,108	54,142	519,250	-
Due from Other Funds	86,323	(86,323)	-	-
Due from Others	-	9,213	9,213	-
<b>Capital Assets:</b>				
Land Purchase and Improvements	154,191	13,046	167,237	-
Infrastructure, Net	1,047,796	13,407,484	14,455,280	2,120,954
Buildings, Net	595,781	-	595,781	-
Furniture and Equipment, Net	1,715,702	842,829	2,558,531	-
<b>Total Assets</b>	<b>\$ 6,631,069</b>	<b>\$ 14,541,593</b>	<b>\$ 21,172,662</b>	<b>\$ 2,949,940</b>
<b>Current Liabilities</b>				
Accounts Payable	2,294	2,608	4,902	63,643
Wages and Salaries Payable	12,213	-	12,213	-
Unearned Revenues	963,295	-	963,295	-
<b>Non-Current Liabilities:</b>				
Debt Due Within One Year	43,302	76,437	119,739	97,931
Leases Payable - Noncurrent	350,181	39,029	389,210	40,921
<b>Total Liabilities</b>	<b>1,371,285</b>	<b>118,074</b>	<b>1,489,359</b>	<b>202,495</b>
<b>Net Position</b>				
Net Invested in Capital Assets	\$ 3,119,987	\$ 14,242,357	\$ 17,362,344	\$ 1,982,102
Restricted for Debt Service	414,548	-	414,548	-
Restricted for Capital Projects	208,659	-	-	-
Unrestricted	1,516,590	181,162	1,697,752	765,343
<b>Total Net Position</b>	<b>\$ 5,259,784</b>	<b>\$ 14,423,519</b>	<b>\$ 19,683,303</b>	<b>\$ 2,747,445</b>

CITY OF ELSA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Expenses	Program Revenues <u>Charges for Services</u>
<b>Primary Government:</b>		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 1,530,533	\$ -
Public Safety	1,577,657	547,274
Public Works	511,101	-
Health and Welfare	718,402	-
Culture and Recreation	127,182	-
Conservation and Development	-	-
Interest on Debt	23,599	-
Total Governmental Activities	4,488,474	547,274
BUSINESS-TYPE ACTIVITIES:		
Total Business-Type Activities	1,536,092	1,511,556
	1,536,092	1,511,556
TOTAL PRIMARY GOVERNMENT	\$ 6,024,566	\$ 2,058,830
<b>Component Unit:</b>		
Nonmajor Component Unit	\$ 932,917	\$ -
TOTAL COMPONENT UNITS	\$ 932,917	\$ -

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

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

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
\$ (1,530,533)	\$ -	\$ (1,530,533)	\$ -
(1,030,383)	-	(1,030,383)	-
(511,101)	-	(511,101)	-
(718,402)	-	(718,402)	-
(127,182)	-	(127,182)	-
-	-	-	(823,318)
(23,599)	-	(23,599)	-
(3,941,200)	-	(3,941,200)	(823,318)
-	(24,536)	(24,536)	-
-	(24,536)	(24,536)	-
(3,941,200)	(24,536)	(3,965,736)	(823,318)
-	-	-	(932,917)
-	-	-	(932,917)
1,227,371	-	1,227,371	-
394,956	-	394,956	-
1,046,933	-	1,046,933	1,221,381
226,150	-	226,150	-
80,341	-	80,341	-
916,956	-	916,956	-
1,170,871	1,050	1,171,921	7,329
(287,361)	138,642	(148,719)	148,719
4,776,217	139,692	4,915,909	1,377,429
835,017	115,156	950,173	444,512
4,426,117	14,319,884	18,746,001	2,302,933
(1,350)	(11,521)	(12,871)	-
\$ 5,259,784	\$ 14,423,519	\$ 19,683,303	\$ 2,747,445

CITY OF ELSA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2021

	General Fund	American Recovery Plan Act	Debt Service Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 979,666	\$ 888,553	\$ 414,548
Taxes Receivable	368,755	-	192,488
Allowance for Uncollectible Taxes (credit)	(99,564)	-	(51,972)
Accounts Receivable, Net	55,401	-	-
Due from Other Funds	86,323	-	-
Total Assets	<u>\$ 1,390,581</u>	<u>\$ 888,553</u>	<u>\$ 555,064</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 2,294	\$ -	\$ -
Wages and Salaries Payable	12,213	-	-
Unearned Revenues	-	888,553	-
Total Liabilities	<u>14,507</u>	<u>888,553</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	269,191	-	140,516
Total Deferred Inflows of Resources	<u>269,191</u>	<u>-</u>	<u>140,516</u>
<b>FUND BALANCES</b>			
Other Assigned Fund Balance	-	-	414,548
Unassigned Fund Balance	1,106,883	-	-
Total Fund Balances	<u>1,106,883</u>	<u>-</u>	<u>414,548</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,390,581</u>	<u>\$ 888,553</u>	<u>\$ 555,064</u>

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

Other Funds	Total Governmental Funds
\$ 283,401	\$ 2,566,168
-	561,243
-	(151,536)
-	55,401
-	86,323
<u>\$ 283,401</u>	<u>\$ 3,117,599</u>
\$ -	\$ 2,294
-	12,213
74,742	963,295
<u>74,742</u>	<u>977,802</u>
-	409,707
<u>-</u>	<u>409,707</u>
208,659	623,207
-	1,106,883
<u>208,659</u>	<u>1,730,090</u>
<u>\$ 283,401</u>	<u>\$ 3,117,599</u>



CITY OF ELSA  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

<b>Total Fund Balances - Governmental Funds</b>	\$	1,730,090
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.		2,664,419
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 2021 capital outlays and debt principal payments is to increase (decrease) net position.		884,721
The 2021 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		-0-
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.		(19,446)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>5,259,784</b>

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

CITY OF ELSA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	General Fund	American Recovery Plan Act	Debt Service Fund
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 1,237,124	\$ -	\$ 404,649
General Sales and Use Taxes	1,046,933	-	-
Franchise Tax	226,150	-	-
Penalty and Interest on Taxes	56,987	-	23,354
Licenses and Permits	16,490	-	-
Intergovernmental Revenue and Grants	444,597	-	-
Charges for Services	547,274	-	-
Fines	215,995	-	-
Contributions & Donations from Private Sources	53,862	-	-
Other Revenue	938,386	-	-
Total Revenues	4,783,798	-	428,003
<b>EXPENDITURES:</b>			
Current:			
General Government	1,530,533	-	-
Public Safety	1,577,657	-	-
Public Works	511,101	-	-
Health and Welfare	484,921	-	-
Culture and Recreation	127,182	-	-
Debt Service:			
Principal on Debt	132,240	-	-
Interest on Debt	23,599	-	-
Capital Outlay:			
Capital Outlay	202,771	-	-
Total Expenditures	4,590,004	-	-
Excess of Revenues Over Expenditures	193,794	-	428,003
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	336,510	-	-
Transfers Out	(431,561)	-	(336,510)
Total Other Financing Sources (Uses)	(95,051)	-	(336,510)
Net Change in Fund Balances	98,743	-	91,493
Fund Balance - October 1 (Beginning)	1,009,490	-	323,055
Prior Period Adjustment	(1,350)	-	-
Fund Balance - September 30 (Ending)	\$ 1,106,883	\$ -	\$ 414,548

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

Other Funds	Total Governmental Funds
\$ -	\$ 1,641,773
-	1,046,933
-	226,150
-	80,341
-	16,490
418,497	863,094
-	547,274
-	215,995
-	53,862
-	938,386
418,497	5,630,298
-	1,530,533
-	1,577,657
-	511,101
233,481	718,402
-	127,182
-	132,240
-	23,599
120,557	323,328
354,038	4,944,042
64,459	686,256
200,000	536,510
(55,800)	(823,871)
144,200	(287,361)
208,659	398,895
-	1,332,545
-	(1,350)
\$ 208,659	\$ 1,730,090

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, 2021

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	398,895
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 2021 capital outlays and debt principal payments is to increase (decrease) the change in net position.		455,568
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		-0-
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.		(19,446)
<b>Change in Net Position of Governmental Activities</b>	<u>\$</u>	<u>835,017</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, 2021

	Business Type Activities
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 301,202
Accounts Receivable, Net	54,142
Due from Others	9,213
Total Current Assets	364,557
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	13,046
Infrastructure	12,222,319
Improvements other than Buildings	2,027,994
Total Noncurrent Assets	14,263,359
Total Assets	14,627,916
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	2,608
Due to Other Funds	86,323
Notes Payable - Current	76,437
Total Current Liabilities	165,368
Noncurrent Liabilities:	
Loans Payable - Noncurrent	39,029
Total Noncurrent Liabilities	39,029
Total Liabilities	204,397
<b>NET POSITION</b>	
Net Investment in Capital Assets	14,242,357
Unrestricted	181,162
Total Net Position	\$ 14,423,519

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, 2021

EXHIBIT D-2

	Business-Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Services	\$ 1,511,556
Other Revenue	1,050
Total Operating Revenues	1,512,606
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	473,209
Personnel Services - Employee Benefits	106,792
Purchased Professional & Technical Services	47,530
Purchased Property Services	8,994
Other Operating Costs	622,041
Supplies	98,971
Depreciation	170,686
Debt Service-Interest	7,869
Total Operating Expenses	1,536,092
Income (Loss) Before Transfers	(23,486)
Nonoperating Transfers In	138,642
Change in Net Position	115,156
Total Net Position - October 1 (Beginning)	14,319,884
Prior Period Adjustment	(11,521)
Total Net Position - September 30 (Ending)	\$ 14,423,519

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, 2021

	Water and Sewer Fund
Cash Flows From Operating Activities:	
Cash Receipts From Customers	\$ 1,437,369
Cash Payments to Employees	(583,654)
Cash Payments for Services	(56,524)
Cash Payments for Supplies	(109,997)
Cash Payments to Other	(556,248)
Net Cash Provided(Used) by Operating Activities	130,946
Cash Flow From Capital and Related Financing Activities:	
Principal Paid on Long-Term Debt	(76,222)
Net Cash Provided(Used) by Capital and Related Financing Activities	(76,222)
Cash Flow From Non-Capital and Related Financing Activities:	
Transfers In From Other Funds	138,642
Net Cash Flow From Non-Capital and Related Financing Activities	138,642
Net Increase (Decrease) in Cash and Cash Equivalents	193,366
Cash and Cash Equivalents, Beginning of Year	107,836
Cash and Cash Equivalents, End of Year	301,202

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

CITY OF ELSA, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)  
by Operating Activities:

Operating Income(Loss)	(23,486)
Depreciation Expenses	170,686
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
(Increase) Decrease in Accounts Receivable	74,187
(Increase) Decrease in Due From Others	(5,411)
(Increase) Decrease in Due From Other Funds	-
Increase (Decrease) in Accounts Payable	(11,026)
Increase (Decrease) in Retainage Payable	-
Increase (Decrease) in Interfund Liabilities	(62,484)
Increase (Decrease) in other Liabilities	(16,254)
Total Adjustments	(20,988)
Net Cash Provided (Used) by Operating Activities	<u>\$ 130,946</u>

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, 2021**

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

**A.**      **General Statement**

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

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

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

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

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

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

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

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

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

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**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, 2021**

**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, 2021**

**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.

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

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 finance through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the 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 all eligibility requirements imposed by the provider have been met.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

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

Revenues derived from federal or state grants are recognized when earned at the end of the current fiscal year and are reflected as due from other governments. Because of their nature, the availability period has a longer duration of six months to a year.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other revenue items are considered to be measurable and available only when cash is received by the government.

**G.      BUDGETARY INFORMATION**

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

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

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

**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

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

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, 2021.

**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, 2021, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,281,918 for the primary government and \$828,986 for the discretely presented component units, for an aggregate bank balance was \$4,110,904. The City's cash deposits at September 30, 2021 and during the period ended September 30, 2021, 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

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

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 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. 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.

**4. 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 of donation.

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

Within the proprietary fund, interest cost, less interest earned on investments acquired with

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

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, 2021 the City has not adhered to the polices listed above. Refer to finding #2021-002 in the Schedule of Findings and Responses of this report.

**5. 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”.

**6. Accumulated Compensated Absences**

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

In Governmental Funds, the primary emphasis is on 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 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.



**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

**7. 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.

**8. 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.

**9. 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, 2021, the City had no investments:

Investment Maturities (In Years)

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

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

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

investments in obligations from other states, municipalities, countries, etc. must be rated at least A.

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

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 \$1,628,015 were assessed on property values totaling \$184,160,587 using a tax rate of \$0.8832 (\$0.6549 for general operations and \$0.2283 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, 2021**

**NOTE 4      DISSAGGREGATION OF RECEIVABLES AND PAYABLES**

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

	Taxes	Due From Other Funds	Utilities	Other	Total Receivables
<b>Governmental Funds:</b>					
General Fund	\$ 368,755	\$ 86,323	\$ -	\$ 84,841	\$ 539,919
Debt Service Fund	192,488	-	-	-	192,488
Allowance for Uncollectible	(151,536)	-	-	(29,440)	(180,976)
Total - Governmental Activities	<u>\$ 409,707</u>	<u>\$ 86,323</u>	<u>\$ -</u>	<u>\$ 55,401</u>	<u>\$ 551,431</u>
<b>Business-Type Activities:</b>					
Enterprise Fund	\$ -	\$ -	\$ 128,561	\$ 3,802	\$ 132,363
Allowance for Uncollectible	-	-	(74,420)	-	(74,420)
Total Business-Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,141</u>	<u>\$ 3,802</u>	<u>\$ 57,943</u>

Accounts Payable were recorded as follows:

	Accounts Payable	Salaries and Benefits	Due to Other Funds	Other	Total Payables
<b>Governmental Funds:</b>					
General Fund	\$ (2,294)	\$ (12,213)	\$ -	\$ -	\$ (14,507)
Total - Governmental Funds	<u>\$ (2,294)</u>	<u>\$ (12,213)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,507)</u>
<b>Business-Type Activities:</b>					
Enterprise Fund	\$ 2,608	\$ -	\$ (86,323)	\$ -	\$ (83,715)
Total Business-Type Activities Funds	<u>\$ 2,608</u>	<u>\$ -</u>	<u>\$ (86,323)</u>	<u>\$ -</u>	<u>\$ (83,715)</u>
<b>Component Units</b>					
Municipal Development	\$ (63,643)	\$ -	\$ -	\$ -	\$ (63,643)
Total Component Units	<u>\$ (63,643)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (63,643)</u>

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 5      DEFERRED REVENUE**

Governmental funds report revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned at the end of the year, the various components of deferred revenue and unearned revenue reported in the fund financial statements were as follows:

<u>Description</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Property Taxes	\$ 269,191	\$ 140,516	\$ -	\$ 409,707
American Recovery Act Plan (ARPA)			888,553	
Care's Act	-	-	74,742	74,742
Total	\$ 269,191	\$ 140,516	\$ 963,295	\$ 484,449

**NOTE 6      CAPITAL ASSETS**

Capital Assets for governmental activities are as follows:

	<u>Balance</u> <u>October 1, 2020</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance</u> <u>September 30, 2021</u>
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 154,191	\$ -	\$ -	\$ 154,191
Total Capital assets, not being depreciated	154,191	-	-	154,191
Capital Asset being depreciated:				
Buildings	681,788	-	-	681,788
Furniture and Equipment	2,911,514	323,328	-	3,234,842
Infrastructure	2,576,840	-	-	2,576,840
Total capital assets, being depreciated	6,170,142	323,328	-	6,493,470
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	(3,134,191)	-	-	(3,134,191)
Total capital assets being depreciated, net	3,035,951	323,328	-	3,359,279
Governmental activities capital assets, net	3,190,142	323,328	-	3,513,470

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 6      CAPITAL ASSETS (CONTINUED)**

Capital Assets for Business-type activities are as follows:

	Balance October 1, 2020	Additions	Adjustments	Balance September 30, 2021
Business-type Activities				
Capital Assets, not being depreciated				
Land	\$ 13,046	\$ -	\$ -	\$ 13,046
Total capital assets, not being depreciated	<u>13,046</u>	<u>-</u>	<u>-</u>	<u>13,046</u>
Capital Assets, being depreciated				
Furniture and Equipment	842,829	-	-	842,829
Infrastructure	18,944,582	-	-	18,944,582
Total capital assets, being depreciated	<u>19,787,411</u>	<u>-</u>	<u>-</u>	<u>19,787,411</u>
Less accumulated depreciation for:				
Capital Assets, being depreciated	(5,366,412)	(170,686)	-	(5,537,098)
Total accumulated depreciation	<u>(5,366,412)</u>	<u>(170,686)</u>	<u>-</u>	<u>(5,537,098)</u>
Total capital assets, being depreciated, net	<u>14,420,999</u>	<u>(170,686)</u>	<u>-</u>	<u>14,250,313</u>
Business-type activities capital assets, net	<u>\$ 14,434,045</u>	<u>\$ (170,686)</u>	<u>\$ -</u>	<u>\$ 14,263,359</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, 2021 Refer to finding #2021-002 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, 2021**

**NOTE 7**      **INTERFUND TRANSACTIONS AND BALANCES**

Inter-fund balances as of September 30, 2021, consisted of the following individual fund balances:

	Due From Other Funds	Due To Other Funds
General Fund:		
Enterprise Fund	\$ 86,323	\$ -
Total General Fund	86,323	-
Enterprise Fund:		
General Fund	-	86,323
Total Enterprise Fund	-	86,323
Total	\$ 86,323	\$ 86,323

**NOTE 8**      **INTERFUND TRANSFERS**

The inter-fund balances as of September 30, 2021, are generally short-term loans to cover temporary cash flows and reimbursements for various funds. Inter-fund transfers during the year ended September 30, 2021, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 336,510	\$ 431,561
Enterprise Fund	119,383	-
Debt Service Fund	200,000	336,510
Economic Development Fund	-	55,800
Component Units	168,770	792
Total	\$ 824,663	\$ 824,663

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 9      LONG-TERM DEBT**

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
<b>Governmental Activities:</b>				
<u>Leases Payable</u>				
Government Capital	434,853	-	41,370	393,483
KS State Bank	90,870	-	90,870	-
Total bonds and leases payable	<u>525,723</u>	<u>-</u>	<u>132,240</u>	<u>393,483</u>
<b>Component Units:</b>				
<u>Notes Payable</u>				
Texas National Bank	236,600	-	97,748	138,852
Total other long-term liabilities	<u>236,600</u>	<u>-</u>	<u>97,748</u>	<u>138,852</u>
<b>Total Governmental Activities</b>	<u>762,323</u>	<u>-</u>	<u>229,988</u>	<u>532,335</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Business-Type Activities</b>				
<u>Bonds, Notes and Leases Payable</u>				
Government Capital	189,791	-	74,325	115,466
Total bonds and leases payable	<u>189,791</u>	<u>-</u>	<u>74,325</u>	<u>115,466</u>
<b>Total Business-Type Activities</b>	<u>189,791</u>	<u>-</u>	<u>74,325</u>	<u>115,466</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 \$480,305 on July of 2019. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future lease payments as of the inception date. The outstanding balance as of September 30, 2021, is \$393,483.

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 matured on March 2021.

**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

Total Governmental Fund Capital Leases were as follows for year ending September 30, 2021:

<b><u>Year Ended</u></b> <b><u>September 30,</u></b>	<b><u>Prinicipal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b> <b><u>Requirements</u></b>
2022	43,302	17,323	\$ 60,624
2023	45,324	15,301	\$ 60,624
2024	47,440	13,184	\$ 60,624
2025	49,656	10,969	\$ 60,624
2026	51,974	8,650	\$ 60,624
2027-Thereafter	155,787	10,930	\$ 166,717
<b>Total</b>	<b>\$ 393,483</b>	<b>\$ 76,356</b>	<b>\$ 469,839</b>

**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.

	<b><u>Fiscal Year Ending</u></b> <b><u>September 30,</u></b>	<b><u>Contract</u></b> <b><u>Payment</u></b>
	2022	112,178
	2023	33,972
Total note payments		146,150
Less: Amount representing Interest		(7,298)
Ending note balance		138,852

**Proprietary Fund- Business-Type Activities**

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, 2021, is \$115,466.



**CITY OF ELSA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

	Fiscal Year Ending September 30,	Business-Type Activities
	2022	78,883
	2023	39,441
Total minimum lease payments		118,324
Less: Amount representing interest		(2,858)
Present Value of minimum lease payments		\$ 115,466

**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.

**CITY OF ELSA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**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

**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	(\$      16,548)
General Fund	Public Safety	(\$     114,375)
General Fund	Public Works	(\$      30,966)
General Fund	Health and Welfare	(\$     159,380)

**NOTE 14      EVALUATION OF SUBSEQUENT EVENTS**

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

CITY OF ELSA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 1,545,000	\$ 1,545,000	\$ 1,237,124	\$ (307,876)
General Sales and Use Taxes	897,000	897,000	1,046,933	149,933
Franchise Tax	253,839	253,839	226,150	(27,689)
Penalty and Interest on Taxes	69,283	69,283	56,987	(12,296)
Licenses and Permits	25,184	25,184	16,490	(8,694)
Intergovernmental Revenue and Grants	-	-	444,597	444,597
Charges for Services	710,359	710,359	547,274	(163,085)
Fines	155,856	155,856	215,995	60,139
Contributions & Donations from Private Sources	181,366	181,366	53,862	(127,504)
Other Revenue	474,020	474,020	938,386	464,366
Total Revenues	<u>4,311,907</u>	<u>4,311,907</u>	<u>4,783,798</u>	<u>471,891</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	1,513,985	1,513,985	1,530,533	(16,548)
Public Safety	1,463,282	1,463,282	1,577,657	(114,375)
Public Works	480,135	480,135	511,101	(30,966)
Health and Welfare	325,541	325,541	484,921	(159,380)
Culture and Recreation	130,000	130,000	127,182	2,818
Debt Service:				
Principal on Debt	168,964	168,964	132,240	36,724
Interest on Debt	30,000	30,000	23,599	6,401
Capital Outlay:				
Capital Outlay	200,000	200,000	202,771	(2,771)
Total Expenditures	<u>4,311,907</u>	<u>4,311,907</u>	<u>4,590,004</u>	<u>(278,097)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>193,794</u>	<u>193,794</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	-	336,510	336,510
Transfers Out	-	-	(431,561)	(431,561)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(95,051)</u>	<u>(95,051)</u>
Net Change	-	-	98,743	98,743
Fund Balance - October 1 (Beginning)	1,009,420	1,009,420	1,009,490	70
Prior Period Adjustment	-	-	(1,350)	(1,350)
Fund Balance - September 30 (Ending)	<u>\$ 1,009,420</u>	<u>\$ 1,009,420</u>	<u>\$ 1,106,883</u>	<u>\$ 97,463</u>

CITY OF SELSA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
REVENUES:				
Taxes:				
Property Taxes	\$ 375,000	\$ 375,000	\$ 404,649	\$ 29,649
Penalty and Interest on Taxes	25,000	25,000	23,354	(1,646)
Total Revenues	<u>400,000</u>	<u>400,000</u>	<u>428,003</u>	<u>28,003</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out	(400,000)	(400,000)	(336,510)	63,490
Total Other Financing Sources (Uses)	<u>(400,000)</u>	<u>(400,000)</u>	<u>(336,510)</u>	<u>63,490</u>
Change in Fund Balance	-	-	91,493	91,493
Fund Balance - October 1 (Beginning)	<u>323,055</u>	<u>323,055</u>	<u>323,055</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 323,055</u>	<u>\$ 323,055</u>	<u>\$ 414,548</u>	<u>\$ 91,493</u>

CITY OF ELSA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2021

	Cares Act Fund	Nonmajor Special	Pacific Trails Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 74,742	\$ 74,742	\$ 208,659	\$ 283,401
Total Assets	<u>\$ 74,742</u>	<u>\$ 74,742</u>	<u>\$ 208,659</u>	<u>\$ 283,401</u>
<b>LIABILITIES</b>				
Unearned Revenues	\$ 74,742	\$ 74,742	-	\$ 74,742
Total Liabilities	<u>74,742</u>	<u>74,742</u>	<u>-</u>	<u>74,742</u>
<b>FUND BALANCES</b>				
Other Assigned Fund Balance	-	-	208,659	208,659
Total Fund Balances	<u>-</u>	<u>-</u>	<u>208,659</u>	<u>208,659</u>
Total Liabilities and Fund Balances	<u>\$ 74,742</u>	<u>\$ 74,742</u>	<u>\$ 208,659</u>	<u>\$ 283,401</u>

CITY OF SELA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Cares Act Fund	Nonmajor Special	Pacific Trails Fund	Total Nonmajor Governmental Funds
<b>REVENUES:</b>				
Intergovernmental Revenue and Grants	\$ 233,481	\$ 233,481	\$ 185,016	\$ 418,497
Total Revenues	<u>233,481</u>	<u>233,481</u>	<u>185,016</u>	<u>418,497</u>
<b>EXPENDITURES:</b>				
Health and Welfare	233,481	233,481	-	233,481
Capital Outlay:				
Capital Outlay	-	-	120,557	120,557
Total Expenditures	<u>233,481</u>	<u>233,481</u>	<u>120,557</u>	<u>354,038</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>64,459</u>	<u>64,459</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	-	200,000	200,000
Transfers Out	-	-	(55,800)	(55,800)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>144,200</u>	<u>144,200</u>
Net Change in Fund Balance	-	-	208,659	208,659
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 208,659</u>	<u>\$ 208,659</u>

# **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, 2021, 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 September 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 #2021-001 and #2021-002 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 # 2021-003 through #2021-006 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

September 15, 2022



**CITY OF ELSA, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

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

**2021-001 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 180<sup>th</sup> 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 LA ELSA, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**2021-002 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.

**2021-003 Controls over Accounting Records**

Criteria: There should be a complete set of accounting records for each fund which includes: Debt Service 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.

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**2021-004 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, 2021.

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.

**2021-005 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.

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.

**2021-006 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, 2021

**2020-001 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 180<sup>th</sup> day after the end of the fiscal year for which the audit was conducted.

Status: See Current Year Findings.

**2020-002 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.

**2020-003 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.

**2020-004 Expenditures in Excess of Budget Appropriations**

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

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

Status: See Current Year Findings.

CITY OF ELSA, TEXAS  
SCHEDULE OF PRIOR FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**2020-005 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.

**2020-006 Compliance over Formal Competitive Procurement**

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

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

Status: See Current Year Findings.