
CITY OF ELSA, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2022

ADRIAN WEBB
CERTIFIED PUBLIC ACCOUNTANT

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CITY OF ELSA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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INTRODUCTORY SECTION

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ADRIAN WEBB, CPA
Certified Public Accountant
McAllen, Texas

Independent Auditor's Report

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

Qualified Opinion

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elsa as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Elsa's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material aspects, the financial position of the City of Elsa, as of September 30, 2022, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

Management has not performed a thorough and complete inventory of fixed assets, including infrastructure, nor developed a complete and accurate depreciation expense calculation. Accounting 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in the notes to the financial statements, in the year ending September 30, 2022, the City adopted new accounting guidance, *Governmental Accounting Standards Board (GASB) Statement No. 87, Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2023, on our consideration of the City of Elsa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Elsa's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Elsa's internal control over financial reporting and compliance.

Adrian Webb, CPA

Adrian Webb
Certified Public Accountant
McAllen, Texas

September 12, 2023

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MANAGEMENT DISCUSSION & ANALYSIS

City of Elsa, Texas
Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Elsa, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2022. Please read it in conjunction with the Independent Auditors' Report and the City's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

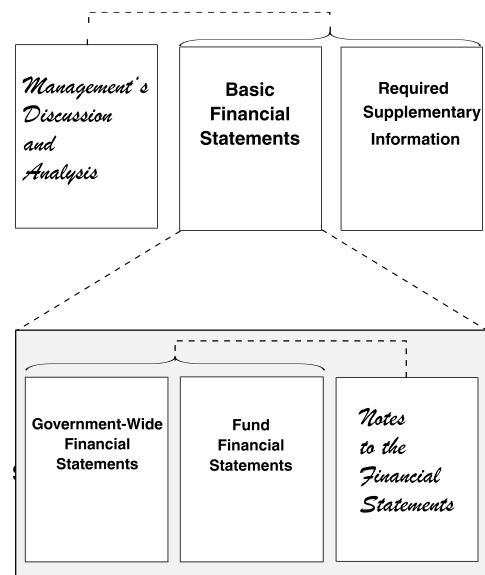
- The City's overall total change in net position was an increase of \$275,364 as of September 30, 2022. This is composed of Governmental Activities' net position of \$5,631,483 and Business-Type Activities' net position of \$14,327,184 for a total of \$19,958,667 ending balance.
- Assets from governmental activities exceeded its liabilities at the end of the most current fiscal year by \$5,631,483 in comparison with \$5,259,784 in the prior year. Assets from Business-Type activities exceeded its liabilities at the end of the most current fiscal year by \$14,327,184 in comparison with 14,423,519 in the prior year.
- Revenues exceeded expenditures by \$192,121 for the current year ending 2022 in comparison to 2021 where revenues exceeded expenditures by \$686,256 for Governmental Funds.
- Business-Type activities- Expenses exceeded revenues creating a loss of \$200,177 before interfund transfers for the current period ending 2022.
- The General Fund ended the year with a fund balance of \$1,299,004.

USING THIS ANNUAL REPORT

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

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

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



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

City of Elsa, Texas
Management's Discussion and Analysis

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

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

City of Elsa, Texas
Management's Discussion and Analysis

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 \$275,364 during the current fiscal year.

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

	Governmental Activities		Business-Type Activities		Totals		Increase
	2022	2021	2022	2021	2022	2021	(Decrease)
Current Assets							
Cash and Cash Equivalents	\$ 2,639,284	\$ 2,566,168	\$ 47,754	\$ 301,202	\$ 2,687,038	\$ 2,867,370	\$ (180,332)
Taxes Receivable, Net	325,512	-	-	-	325,512	-	325,512
Accounts Receivable, Net	75,353	465,108	106,383	54,142	181,736	519,250	(337,514)
Due from Other Funds	3,137	86,323	(418)	(86,323)	2,719	-	2,719
Due from Others	433,485	-	-	9,213	433,485	9,213	424,272
Total current assets	3,476,771	3,117,599	153,719	278,234	3,630,490	3,395,833	234,657
Capital Assets, Net	4,156,487	3,513,470	14,274,787	14,263,359	18,431,274	17,776,829	654,445
Total Assets	\$ 7,633,258	\$ 6,631,069	\$ 14,428,506	\$ 14,541,593	\$ 22,061,764	\$ 21,172,662	\$ 889,102
Current Liabilities							
Accounts Payable	-	2,294	-	2,608	-	4,902	(4,902)
Payroll Liabilities	11,063	12,213	-	-	11,063	12,213	(1,150)
Unearned Revenues	1,426,685	963,295	-	-	1,426,685	963,295	463,390
Debt Service - Current	119,991	43,302	39,029	76,437	159,020	119,739	39,281
Other Current Liabilities	-	-	62,292	-	62,292	-	62,292
Total Current Liabilities	1,557,739	1,021,104	101,321	79,045	1,659,060	1,100,149	558,911
Non-Current Liabilities							
Debt Service - Noncurrent	444,036	350,181	-	39,029	444,036	389,210	54,826
Total Non-Current Liabilities	444,036	350,181	-	39,029	444,036	389,210	54,826
Total Liabilities	2,001,775	1,371,285	101,321	118,074	2,103,096	1,489,359	613,737
Net Position							
Net Invested in Capital Assets	\$ 3,589,460	\$ 3,119,987	\$ 14,235,759	\$ 14,242,357	\$ 17,825,219	\$ 17,362,344	\$ 462,875
Restricted	414,507	623,207	-	-	414,507	623,207	(208,700)
Unrestricted	1,627,516	1,516,590	91,426	181,162	1,718,942	1,697,752	21,190
Total Net Position	\$ 5,631,483	\$ 5,259,784	\$ 14,327,185	\$ 14,423,519	\$ 19,958,668	\$ 19,683,303	\$ 275,365

City of Elsa, Texas
Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Total revenues increased by \$710,569 and total expenses increased by \$1,134,365. The change in net position for the current fiscal year was an increase of \$275,364.

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

	Governmental Activities		Business- Type		Totals		Increase
	2022	2021	2022	2021	2022	2021	(Decrease)
Revenues							
Program Revenues							
Charges for Services	\$ 1,829,936	\$ 547,274	\$ 1,390,583	\$ 1,511,556	\$ 3,220,519	\$ 2,058,830	\$ 1,161,689
General Revenues							
Property Taxes, Levied for general purposes	1,537,757	1,622,327	-	-	1,537,757	1,622,327	(84,570)
Sales Taxes	1,137,004	1,046,933	-	-	1,137,004	1,046,933	90,071
Franchise Taxes	287,453	226,150	-	-	287,453	226,150	61,303
Miscellaneous	80,665	1,170,871	-	1,050	80,665	1,171,921	(1,091,256)
Interest Revenue	115,900	80,341	-	-	115,900	80,341	35,559
Intergovernmental Revenue and Grants	1,278,408	916,956	-	-	1,278,408	916,956	361,452
Transfers	(76,239)	(287,361)	103,841	138,642	27,602	(148,719)	176,321
Total Revenues	6,190,884	5,323,491	1,494,424	1,651,248	7,685,308	6,974,739	710,569
Expenses							
General Government	2,516,508	3,784,879	-	-	2,516,508	3,784,879	(1,268,371)
Public Safety	1,949,768	289,320	-	-	1,949,768	289,320	1,660,448
Public Works	564,601	68,594	-	-	564,601	68,594	496,007
Culture and Recreational	246,063	67,882	-	-	246,063	67,882	178,181
Health and Welfare	273,908	254,200	-	-	273,908	254,200	19,708
Debt Interest	17,323	23,599	-	-	17,323	23,599	(6,276)
Water and Sewer	-	-	1,590,760	1,536,092	1,590,760	1,536,092	54,668
Total Expenses	\$ 5,568,171	\$ 4,488,474	\$ 1,590,760	\$ 1,536,092	\$ 7,158,931	\$ 6,024,566	\$ 1,134,365
Change in Net Position	622,713	835,017	(96,336)	115,156	526,377	950,173	(423,796)
Net Position Beginning	5,259,784	4,426,117	14,235,758	14,319,884	19,495,542	18,746,001	749,541
Prior Period Adjustment	(251,014)	(1,350)	91,426	(11,521)	(159,588)	(12,871)	(146,717)
Net Position Ending	\$ 5,631,483	\$ 5,259,784	\$ 14,230,848	\$ 14,423,519	\$ 19,862,331	\$ 19,683,303	\$ 179,028

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 \$1,299,004.

Capital Assets and Debt Administration

Capital Assets

The City's investments in capital assets for its governmental activities amount to \$4,156,487 (net of accumulated depreciation) for 2022. Business-type activities amounted to \$14,274,787 for 2022. 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.

	Governmental Activities		Business-Type		Totals		Increase
	2022	2021	2022	2021	2022	2021	(Decrease)
Capital Assets							
Land	\$ 154,191	\$ 154,191	\$ 13,046	\$ 13,046	\$ 167,237	\$ 167,237	\$ -
Buildings	-	-	-	-	-	-	-
Furniture and Equipment	3,234,842	3,234,842	854,257	842,829	4,089,099	4,077,671	11,428
Infrastructure/Streets	3,901,645	2,576,840	18,944,582	18,944,582	22,846,227	21,521,422	1,324,805
Total Capital Assets	\$ 7,290,678	\$ 5,965,873	\$ 19,811,885	\$ 19,800,457	\$ 27,102,563	\$ 25,766,330	\$ 1,336,233
Less: Accumulated Depreciation	\$ (3,134,191)	\$ (3,134,191)	\$ (5,537,098)	\$ (5,537,098)	\$ (8,671,289)	\$ (8,671,289)	\$ -
Total Capital Assets (Net)	\$ 4,156,487	\$ 2,831,682	\$ 14,274,787	\$ 14,263,359	\$ 18,431,274	\$ 17,095,041	\$ 1,336,233

Long-Term Debt

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

Table A-4

	Governmental Activities		Business-Type Activity		Totals		Increase
	2022	2021	2022	2021	2022	2021	(Decrease)
Long-Term Obligations							
Leases Payable (Net)	\$ 444,036	\$ 350,181	\$ -	\$ 39,029	\$ 444,036	\$ 389,210	\$ 54,826
Current Portion	119,991	43,302	39,029	76,437	159,020	119,739	39,281
	\$ 564,027	\$ 393,483	\$ 39,029	\$ 115,466	\$ 603,056	\$ 508,949	\$ 94,107

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

City of Elsa, Texas
Management's Discussion and Analysis

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 2022/2023 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. The general operating fund spending budget for 2023 was prepared based on history of actual definite revenues and essential expenses to operate.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or the component unit (EDC) should be addressed to the Office of the City Elsa, City Administrator: 121 P.O. Box 427, Elsa, Texas 78537.

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BASIC FINANCIAL STATEMENTS

CITY OF ELSA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

EXHIBIT A-1

Data Control Codes	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Units
ASSETS				
1010 Cash and Cash Equivalents	\$ 2,639,284	\$ 47,754	\$ 2,687,038	\$ 941,816
1050 Taxes Receivable, Net	325,512	-	325,512	-
1150 Accounts Receivable, Net	75,353	106,383	181,736	-
1260 Due from Other Governments	433,485	-	433,485	-
1300 Due from Other Funds	3,137	(418)	2,719	-
Capital Assets:				
1710 Capital Assets Not Being Depreciated	154,191	13,046	167,237	2,501,168
1720 Capital Assets Being Depreciated, Net, Net	4,002,296	14,261,741	18,264,037	-
1000 Total Assets	<u>7,633,258</u>	<u>14,428,506</u>	<u>22,061,764</u>	<u>3,442,984</u>
LIABILITIES				
2020 Wages and Salaries Payable	11,063	-	11,063	-
2080 Due to Other Funds	-	-	-	2,719
2230 Unearned Revenues	1,426,685	-	1,426,685	-
2250 Debt Service - Current	119,991	39,029	159,020	141,245
2270 Other Current Liabilities	-	62,292	62,292	-
Noncurrent Liabilities:				
2502 Debt Service - Noncurrent	444,036	-	444,036	-
2000 Total Liabilities	<u>2,001,775</u>	<u>101,321</u>	<u>2,103,096</u>	<u>143,964</u>
NET POSITION				
3200 Net Investment in Capital Assets & Lease Assets	3,589,460	14,242,357	17,831,817	2,359,923
Restricted:				
3850 Restricted for Capital Acquisition	80,792	-	80,792	-
3860 Restricted for Debt Service	333,715	-	333,715	-
3900 Unrestricted	1,627,516	84,827	1,712,343	939,097
3000 Total Net Position	<u>\$ 5,631,483</u>	<u>\$ 14,327,184</u>	<u>\$ 19,958,667</u>	<u>\$ 3,299,020</u>

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

CITY OF ELSA, TEXAS
Statement of Activities
September 30, 2022

EXHIBIT B-1

		Primary Government					Component Unit	
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Nonmajor Component Units
Primary Government:								
GOVERNMENTAL ACTIVITIES								
100	General Government	\$ 2,516,508	\$ 823,471	\$ 1,263,578	\$ (429,459)	\$ -	\$ (429,459)	\$ -
200	Public Safety	1,949,768	640,478	14,830	(1,294,460)	-	(1,294,460)	-
300	Public Works	564,601	182,993		(381,608)	-	(381,608)	-
400	Health and Welfare	273,908	91,497		(182,411)	-	(182,411)	-
500	Culture and Recreation	246,063	91,497		(154,566)	-	(154,566)	(754,240)
720	Interest on Debt	17,323	-		(17,323)	-	(17,323)	
Total Governmental Activities		5,568,171	1,829,936	1,278,408	(2,459,827)	-	(2,459,827)	(754,240)
BUSINESS-TYPE ACTIVITIES								
701	Water and Sewer	1,590,760	1,390,583	-	-	(200,177)	(200,177)	-
Total Business-Type Activities		1,590,760	1,390,583	-	-	(200,177)	(200,177)	-
TOTAL PRIMARY GOVERNMENT		7,158,931	3,220,519	1,278,408	(2,459,827)	(200,177)	(2,660,004)	(754,240)
Component Unit:								
Nonmajor Component Units		754,240	-	-	-	-	-	-
TOTAL COMPONENT UNIT		754,240	-	-	-	-	-	-
General Revenues:								
Taxes					1,279,193	-	1,279,193	-
Property Taxes Levied for General Purposes					258,564	-	258,564	-
Property Taxes Levied for Debt Purposes					1,137,004	-	1,137,004	-
General Sales and Use Tax					287,453	-	287,453	1,228,029
Franchise Tax					115,900	-	115,900	-
Penalty and Interest on Taxes					80,665	-	80,665	-
Transfers In(Out)					(76,239)	103,841	27,602	(27,602)
Total General Revenues and Transfers					3,082,540	103,841	3,186,381	1,200,427
Change in Net Position					622,713	(96,336)	526,377	446,187
Net Position - Beginning					5,259,784	14,423,520	19,683,304	2,747,445
Prior Period Adjustment					(251,014)	-	(251,014)	105,388
Net Position - Ending					\$ 5,631,483	\$ 14,327,184	\$ 19,958,667	\$ 3,299,020

CITY OF ELSA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

Data Control Codes		General Fund	American Recovery Plan Act	Other Funds	Total Governmental Funds
ASSETS					
1010	Cash and Cash Equivalents	\$ 1,637,986	\$ 413,031	\$ 588,267	\$ 2,639,284
1050	Taxes Receivable	390,170	-	176,262	566,432
1051	Allowance for Uncollectible Taxes (credit)	(140,298)	-	(100,622)	(240,920)
1150	Accounts Receivable, Net	75,353	-	-	75,353
1260	Due from Other Governments	171,542	-	261,943	433,485
1300	Due from Other Funds	442,984	912,254	2,719	1,357,957
1000	Total Assets	<u>\$ 2,577,737</u>	<u>\$ 1,325,285</u>	<u>\$ 928,569</u>	<u>\$ 4,831,591</u>
LIABILITIES					
2020	Wages and Salaries Payable	\$ 11,063	\$ -	\$ -	\$ 11,063
2080	Due to Other Funds	916,398	-	438,422	1,354,820
2230	Unearned Revenues	101,400	1,325,285	-	1,426,685
2000	Total Liabilities	<u>1,028,861</u>	<u>1,325,285</u>	<u>438,422</u>	<u>2,792,568</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	249,872	-	75,640	325,512
2600	Total Deferred Inflows of Resources	<u>249,872</u>	<u>-</u>	<u>75,640</u>	<u>325,512</u>
FUND BALANCES					
3490	Restricted for Debt Service	-	-	414,548	414,548
3510	Restricted for Capital Projects	-	-	208,659	208,659
3590	Other Assigned Fund Balance	-	-	(208,700)	(208,700)
3600	Unassigned Fund Balance	1,299,004	-	-	1,299,004
3000	Total Fund Balances	<u>1,299,004</u>	<u>-</u>	<u>414,507</u>	<u>1,713,511</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,577,737</u>	<u>\$ 1,325,285</u>	<u>\$ 928,569</u>	<u>\$ 4,831,591</u>

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

CITY OF ELSA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Total Fund Balances - Governmental Funds	\$ 1,713,511
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.	3,119,987
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 2022 capital outlays and debt principal payments is to increase (decrease) net position.	469,473
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, 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.	328,512
Net Position of Governmental Activities	<u><u>\$ 5,631,483</u></u>

CITY OF ELSA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Data Control Codes	General Fund	American Recovery Plan Act	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
5110 Property Taxes	\$ 1,384,409	\$ -	\$ 292,913	\$ 1,677,322
5120 General Sales and Use Taxes	1,137,004	-	-	1,137,004
5131 Selective Sales and Use Tax for _____	49,844	-	-	49,844
5170 Franchise Tax	247,959	-	-	247,959
5190 Penalty and Interest on Taxes	60,589	-	28,494	89,083
5200 Licenses and Permits	113,048	-	-	113,048
5300 Intergovernmental Revenue and Grants	462,304	455,590	360,514	1,278,408
5400 Charges for Services	1,303,953	-	-	1,303,953
5550 Special Assessments	193,175	-	-	193,175
5620 Rents and Royalties	12,550	-	-	12,550
5700 Other Revenue	207,210	-	-	207,210
5020 Total Revenues	5,172,045	455,590	681,921	6,309,556
EXPENDITURES:				
Current:				
0100 General Government	2,337,086	175,645	74,742	2,587,473
0200 Public Safety	1,949,768	-	-	1,949,768
0300 Public Works	564,601	-	-	564,601
0400 Health and Welfare	273,908	-	-	273,908
0500 Culture and Recreation	246,063	-	-	246,063
Debt Service:				
0710 Principal on Debt	120,375	-	-	120,375
0720 Interest on Debt	17,323	-	-	17,323
Capital Outlay:				
0800 Capital Outlay	-	279,945	363,073	643,017
6030 Total Expenditures	5,509,124	455,590	437,815	6,402,528
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(337,079)	-	244,106	(92,972)
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	58,341	-	-	58,341
7915 Transfers In	377,736	-	107,781	485,517
8911 Transfers Out	(200,020)	-	(361,736)	(561,756)
7080 Total Other Financing Sources (Uses)	236,057	-	(253,955)	(17,898)
1200 Net Change in Fund Balances	(101,022)	-	(9,849)	(110,870)
0100 Fund Balance - October 1 (Beginning)	1,106,883	-	623,207	1,730,090
1300 Prior Period Adjustment	293,144	-	(198,851)	94,291
3000 Fund Balance - September 30 (Ending)	\$ 1,299,005	\$ -	\$ 414,507	\$ 1,713,511

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

CITY OF ELSA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Total Net Change in Fund Balances - Governmental Funds	\$ (110,870)
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 2022 capital outlays and debt principal payments is to increase (decrease) the change in net position.	469,473
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.	264,110
Change in Net Position of Governmental Activities	<u><u>\$ 622,713</u></u>

CITY OF ELSA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	Business Type Activities
	Water and Sewer Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 47,754
Accounts Receivable, Net	106,383
Total Current Assets	154,137
Noncurrent Assets:	
Capital Assets:	
Capital Assets Not Being Depreciated	13,046
Capital Assets Being Depreciated, Net	14,261,741
Total Noncurrent Assets	14,274,787
Total Assets	14,428,924
LIABILITIES	
Current Liabilities:	
Due to Other Funds	418
Notes Payable - Current	39,029
Other Current Liabilities	62,292
Total Liabilities	101,739
NET POSITION	
Net Investment in Capital Assets	14,235,758
Unrestricted	91,426
Total Net Position	\$ 14,327,184

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

CITY OF ELSA, TEXAS
Statement of Revenues, Expenses, and Changes In Fund Net Position
PROPRIETARY FUNDS
September 30, 2022

	<u>Business-Type Activities</u>
	Water and Sewer Fund
OPERATING REVENUES:	
Water Revenue	\$ 785,599
Sewer Revenue	604,984
Total Operating Revenues	<u>1,390,583</u>
OPERATING EXPENSES:	
Salaries and Wages	679,316
Employee Benefits	149,508
Professional and Technical Services	294,605
Supplies, Purchases, and Maintenance	464,885
Debt Service	2,446
Total Operating Expenses	<u>1,590,760</u>
Income (Less) Before Transfers	<u>(200,177)</u>
Nonoperating Transfers In	103,841
Change in Net Position	<u>(96,336)</u>
Total Net Position - October 1 (Beginning)	14,423,520
Total Net Position - September 30 (Ending)	<u><u>\$ 14,327,184</u></u>

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

CITY OF ELSA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Cash Flows From Operating Activities:	
Cash Receipts From Customers	\$ 1,439,737
Cash Payments to Employees	(828,824)
Cash Payments for Services	(294,605)
Cash Payments for Supplies	(481,891)
Net Cash Provided(Used) by Operating Activities	<u>(165,583)</u>
Cash Flow From Capital and Related Financing Activities:	
Principal Paid on Long-Term Debt	<u>(76,437)</u>
Net Cash Provided(Used) by Capital and Related Financing Activities	(76,437)
Cash Flow From Investing Activities	
Acquisition of Capital Assets	<u>(11,428)</u>
Net Cash Provided(Used) by Investing Activities	(11,428)
Net Increase (Decrease) in Cash and Cash Equivalents	(253,448)
Cash and Cash Equivalents, Beginning of Year	<u>301,202</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 47,754</u></u>
Reconciliation of Operating Income of Net Cash Provided by Operating Activities:	
Operating Loss	\$ (96,336)
Effect of Increases and Decreases in Current Assets of Liabilities:	
Decrease (Increase) in Receivables	(52,241)
Increase (Decrease) in Accounts Payable	(2,188)
Increase (Decrease) in Other Liabilities	(14,818)
Net Cash Provided by Operating Activities	<u><u>\$ (165,583)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

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CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The Edcouch-Elsa Independent School District is not part of the City’s reporting entity because the City takes no financial responsibility for them, elected officials of the City do not select their governing authority, the management of the agency is designated independently of the City, the City is not in a position to influence operations and there is no accountability for fiscal matters. Also excluded from the reporting entity is the Housing Authority of Elsa. The Housing Authority is governed by a board of five commissioners, administers 119 units of low-income housing and 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 a member to the Housing Authority and has a moral responsibility for debts. The City of Elsa, Texas has little influence in hiring of management and clerical staff, reviewing and approving budgets, adjustments and amendments, signing contracts, exercising control over facilities and property, and determining the outcome of disposition of matter affecting the service to tenants that receive assistance.

Scope of Service

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

**CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. SCOPE OF REPORTING ENTITY

The City has used the criteria detailed in GASB statement No. 14, “*The Financial Reporting Entity* and GASB Statement No. 61, *The Financial Reporting Entity; Omnibus an amendment of GASB Statements No. 14 and No. 34*” to determine whether or not certain entities should be included in the accompanying financial statements. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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

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

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

D. GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

E. FUND FINANCIAL STATEMENTS

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City has reported the following major governmental funds:

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

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

The City has reported the following major proprietary fund:

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

The City has reported the following nonmajor governmental funds:

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

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

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

G. BUDGETARY INFORMATION

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

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

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. ENCUMBRANCES

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding as of September 30, 2022.

I. ASSETS, LIABILITIES, AND NET POSITION

1. Cash and Cash Equivalents

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

2. Investments

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

3. Receivables and Payables

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

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

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

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Inventories and Prepaid Items

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

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

5. Capital Assets

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

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

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

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

As of September 30, 2022, the City has not adhered to the policies listed above. Refer to finding #2022-002 in the Schedule of Findings and Responses of this report. The right-to-use lease asset capitalization level is determined by the Board. The term of the lease must be the non-cancelable period during which the City has the right to use the tangible assets of another entity plus any periods in which either the lessee or the lessor has the sole option to extend the lease if it is reasonably certain the option will be exercised, plus any periods in which either the lessee or the lessor has the sole option to terminate the lease if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a short-term lease under GASB 87. As of December 31, 2022, the City had \$284,814 of right-to-use assets, net.

6. Accumulated Compensated Absences

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

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

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

7. Leases

The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value of \$5,000 or more. At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Long-Term Obligations

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

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

9. Inter-fund Transactions

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

10. Estimates

Preparation of financial statements in conformity with generally accepted accounting principle requires the use of management's estimates. Items for which estimates are necessary include the amount of receivables which may not be collectible, inventory obsolescence, service lines and salvage values of depreciable assets. Estimates also include the likelihood of loss and potential loss amount from contingencies such as litigation. 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.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Fund Balance Classification

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

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

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

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

12. Minimum Unassigned Fund Balance

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

13. Net Position Flow Assumption

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Deferred Outflows/Inflows of Resources

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

15. Recently Issued and Implemented Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities*, establishes a criterion for identifying activities of all state and local governments. The focus of the of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangement that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement was adopted in the current year. The implementation of this Statement did not affect the City's financial statements.

GASB Statement No. 90, *Majority Equity Interests* – An Amendment of GASB Statements No. 14 and No. 61, improves the consistency and comparability of reporting a government's majority equity interests in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interests and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interests meets the definition of an investment. A majority equity interest meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The implementation of this Statement did not affect the City's financial statements.

GASB Statement No. 87, *Leases* – The Objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement is effective for fiscal years beginning after December 15, 2019, and all reporting periods thereafter. The effects of implementing GASB 87 have been reflected in the City's financial statements.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* – The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The effects of implementing GASB 89 have been reflected in the City’s financial statements.

GASB Statement No. 93, *Interbank offered rates (LIBOR removal and lease modifications)* – The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. The requirements of this statement did not apply to the City for the current fiscal year.

GASB Statement No. 98, *The Annual Comprehensive Financial Report* – The objective of this Statement is to address references in authoritative literature to the term comprehensive annual financial report.

GASB Statement No. 99, *Omnibus 2022* – The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this statement did not apply to the City for the current fiscal year.

The Governmental Accounting Standards Board has issued a statement that will become effective in future years. These statements are as follows:

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* – This statement was issued in May 2020 and provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Implementation of this Statement is planned for the fiscal year 2023.

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 101, *Compensated Absences* – This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. This statement is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

NOTE 2 DEPOSITS AND INVESTMENT

A. Cash and Cash Equivalents

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

As of September 30, 2022, the carrying amount of the City's deposits (cash) was \$2,687,038, and the bank balance was \$2,687,038, all of which is unrestricted. The City maintains cash balances deposited with Texas National Bank. The Federal Deposit Insurance Corporation (FDIC) provides insurance on interest and non-interest-bearing accounts up to \$250,000. As of September 30, 2022, the City's funds that were held in both interest and non-interest-bearing accounts above FDIC coverage limits were not collateralized.

B. Investments

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 2 DEPOSITS AND INVESTMENT (Continued)

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

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

As of September 30, 2022, the City held the following fair value measurements:

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

Custodial Credit Risk. The City maintains a cash and investment pool that combines cash of the various funds in order to maximize investment opportunities. The City's policy and state statutes require that all deposits in financial institutions be insured by the Federal Depository Insurance Corporation (FDIC) or fully collateralized as per the Public Funds Collateral Act. The City's deposits were fully insured or collateralized as required by state statutes as of September 30, 2022.

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

C. Discretely Presented Component Units

As of September 30, 2022, the carrying amount of the Municipal Development District and The Economic Development Corporation's deposits (cash) was \$941,816 and the bank balance was \$956,723 all of which is unrestricted. The Federal Deposit Insurance Corporation (FDIC) provides insurance on interest and non-interest-bearing accounts up to \$250,000 as of September 30, 2022, the MDD's funds that were held in both interest and non-interest-bearing accounts.

NOTE 3 AD VALOREM PROPERTY TAXES

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

Ad valorem taxes of \$1,664,838 were assessed on property values totaling \$186,521,427 using a tax rate of \$0.8237 (\$0.6852 for general operations and \$0.1385 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, 2022

NOTE 4 DISAGGREGATION OF RECEIVABLES

Receivables are recorded net of allowance for uncollectible accounts as of September 30, 2022, as summarized by the following table:

	General Fund	Special Revenue	Debt Service	Capital Projects	Enterprise Fund	Total Receivables
Taxes Receivable, Net	\$ 249,872	\$ -	\$ 75,640	\$ -	\$ -	\$ 325,512
Accounts Receivable, Net	75,353	-	-	-	106,383	181,736
Due from Other Funds	442,984	912,254	-	2,719	-	1,357,957
Due from Others	171,542	-	-	261,943	-	433,485
Total Fund Receivables	<u>\$ 939,751</u>	<u>\$ 912,254</u>	<u>\$ 75,640</u>	<u>\$ 264,662</u>	<u>\$ 106,383</u>	<u>\$ 2,298,690</u>

NOTE 5 DISAGGREGATION OF PAYABLES

Payables as of September 30, 2022, are summarized by the following table:

	General Fund	Cares Act Fund	Debt Service	Capital Projects	Enterprise Fund	Total Payables
Wages and Salaries Payable	\$ 11,063	\$ -	\$ -	\$ -	\$ -	\$ 260,935
Due to Other Funds	916,398	238,422	-	200,000	418	1,430,591
Total Fund Receivables	<u>\$ 927,461</u>	<u>\$ 238,422</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 418</u>	<u>\$ 1,691,526</u>

NOTE 6 UNEARNED REVENUES

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

Description	General Fund	Debt Service Fund	Total
Property Taxes	\$ 101,400	\$ -	\$ 101,400
American Recovery Plan Act (ARPA)	-	1,325,285	1,325,285
Total Unearned Revenues	<u>\$ 101,400</u>	<u>\$ 1,325,285</u>	<u>\$ 1,426,685</u>

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 7 CAPITAL ASSETS

Capital Assets for Governmental Activities are as follows:

	Balance October 1, 2021	Capital Acquisitions	Sales or Disposals	Reclassifications/ Adjustments	Balance September 30, 2022
Governmental Activities:					
Capital Assets, not being depreciated:					
Land	\$ 154,191	\$ -	\$ -	\$ -	\$ 154,191
Construction in Progress	-	-	-	-	-
Total Capital assets, not being depreciated	154,191	-	-	-	154,191
Capital Asset being depreciated:					
Buildings	681,788	279,530	-	-	961,318
Furniture and Equipment	3,234,842	88,690	-	-	3,323,532
Infrastructure	2,576,840	274,796	-	-	2,851,636
Total capital assets, being depreciated	6,493,470	643,017	-	-	7,136,487
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	3,359,279	643,017	-	-	4,002,296
Governmental activities capital assets, net	\$ 3,513,470	\$ 643,017	\$ -	\$ -	\$ 4,156,487

Capital Assets for Business-Type Activities are as follows:

	Balance October 1, 2021	Capital Acquisitions	Sales or Disposals	Adjustments	Balance September 30, 2022
Business-Type Activities:					
Capital Assets, not being depreciated:					
Land	\$ 13,046	\$ -	\$ -	\$ -	\$ 13,046
Total Capital assets, not being depreciated	13,046	-	-	-	13,046
Capital Assets being depreciated:					
Furniture and Equipment	842,829	11,428	-	-	854,257
Infrastructure	18,944,582	-	-	-	18,944,582
Total capital assets, being depreciated	19,787,411	11,428	-	-	19,798,839
Less accumulated depreciation for:					
Capital Assets, being depreciated	(5,537,098)	-	-	-	(5,537,098)
Total accumulated depreciation	(5,537,098)	-	-	-	(5,537,098)
Total capital assets being depreciated, net	14,250,313	11,428	-	-	14,261,741
Business-Type Activities capital assets, net	\$ 14,263,359	\$ 11,428	\$ -	\$ -	\$ 14,274,787

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

The City's perpetual records do not accurately reflect the capital assets on hand and accumulated depreciation for current year ending September 30, 2022, Refer to finding #2022-002 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, 2022

NOTE 8 INTERFUND TRANSFERS AND BALANCES

Interfund balances as of September 30, 2022, consisted of the following individual fund balances:

	Due From	Due To
General Fund:		
Due from Cares Act Fund	\$ 238,422	\$ -
Due from Water and Sewer Fund	418	-
Due from Pacific Trails Fund	200,000	-
Due from Payroll Fund	4,144	-
Due to ARPA Fund	-	912,254
Total General Fund	442,984	912,254
Payroll Fund:		
Due to General Fund	-	4,144
Total Payroll Fund	-	4,144
Pacific Trails Fund:		
Due to General Fund	-	200,000
Due from 4B Economic Development Fund	2,719	-
Total Pacific Trails Fund	2,719	200,000
Enterprise Fund:		
Due to General Fund	-	418
Total Enterprise Fund	-	418
4B Economic Development Fund:		
Due to Pacific Trails Fund	-	2,719
Total 4B Economic Development Fund	-	2,719
American Recovery Plan Act Fund:		
Due from General Fund	912,254	-
Total American Recovery Plan Act Fund	912,254	-
Cares Act Fund:		
Due to General Fund	-	238,422
Total Cares Act Fund	-	238,422
Total Interfund Balances	\$ 1,357,957	\$ 1,357,957

Interfund transfers are generally short-term loans to cover temporary cash flows and reimbursements for various funds. The City's interfund transfers during the year ended September 30, 2022, are summarized as follows:

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 9 LONG-TERM DEBT

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<u>Notes and Leases Payable</u>				
Government Capital	\$ 393,483	\$ -	\$ 43,302	\$ 350,181
Copier Lease	217,468	-	52,167	165,301
Time Clock Lease	18,023	-	9,534	8,489
Phone System Lease	36,488	-	6,817	29,671
Folding Machine Lease	12,835	-	2,449	10,386
Total Governmental Activities	<u>678,296</u>	<u>-</u>	<u>114,269</u>	<u>564,027</u>
Component Units:				
<u>Notes and Leases Payable</u>				
Texas National Bank	138,852		105,051	33,801
Texas National Bank	-	107,781	337	107,444
Total Component Units	<u>138,852</u>	<u>107,781</u>	<u>105,388</u>	<u>141,245</u>
Business-Type Activities:				
<u>Notes and Leases Payable</u>				
Government Capital	115,466	-	76,437	39,029
Total Business-Type Activities	<u>\$ 115,466</u>	<u>\$ -</u>	<u>\$ 76,437</u>	<u>\$ 39,029</u>

Governmental Activities:

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

Government Capital

The City of Elsa, Texas, has financed the acquisition of vehicles. The City entered into a lease agreement as lessee for financing the acquisition of the truck in the amount of \$480,305 on July of 2019. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future lease payments as of the inception date. The outstanding balance as of September 30, 2022, is \$350,181.

Copier Lease

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 9 LONG-TERM DEBT (CONTINUED)

Time Clock Lease

The City entered into an agreement to lease time clocks for different departments throughout the city. The lease agreement qualifies as other short-term leases under GASB 87 Leases and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The agreement is for 60 months beginning August 2018 at \$877 per month. Lease liability is measured using a discount rate of 7.5%.

Phone System Lease

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

Folding Machine Lease

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

The future lease obligations and the net present value of these minimum lease payments as of September 30, 2022, for governmental activities are summarized as follows:

Year Ended September 30,	Principal	Interest	Total Requirements
2023	\$ 424,848	\$ 72,389	\$ 497,237
2024	376,147	66,992	443,139
2025	317,432	33,105	350,537
2026	215,637	19,790	235,427
2027	155,787	10,930	166,717
2028-Thereafter	145,831	5,731	151,562
Total	<u>\$ 1,635,681</u>	<u>\$ 208,937</u>	<u>\$ 1,844,618</u>

Component Unit Activities:

Texas National Bank

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

	Fiscal Year Ending September 30,	Component Unit Activities
	2023	\$ 34,287
Total note payments		34,287
Less: Amount representing Interest		(486)
Ending note balance		<u>\$ 33,801</u>

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 9 LONG-TERM DEBT (CONTINUED)

Texas National Bank

The Economic Development Corporation entered into a loan agreement for the development of the Pacific Trails Project. Funds will be borrowed/drawn on a "as needed" basis, and payments will be made throughout the loan period. Payments will be made based on amounts drawn. Loan agreement dated March 1, 2022, and final payments to be made on March 30, 2027. In no event shall the applicable interest rate be less than 7.5% or exceed the maximum interest rate. As of September 30, 2022, the principal amount outstanding was \$107,444.

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, 2022, is \$39,029.

The future lease obligations and the net present value of these minimum lease payments as of September 30, 2022, are as follows:

	Fiscal Years Ending September 30,	Business-Type Activities
	2023	
Total minimum lease payments		\$ 39,441
Less: Amount representing Interest		39,441
		(412)
Present Value of minimum lease payments		<u>\$ 39,029</u>

NOTE 10 COMMITMENTS AND CONTINGENCIES

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

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

NOTE 11 RISK MANAGEMENT

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

CITY OF ELSA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 12 COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not applicable

B. Excess of expenditures over appropriations

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

<u>Fund Name</u>	<u>Department/Expenditure</u>	<u>Amount of Excess</u>
General	General Government	\$ (108,176)
General	Public Safety	(404,489)
General	Public Works	(76,798)
General	Health and Welfare	(69,246)
General	Culture and Recreation	\$ (12,742)

NOTE 13 EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated events and transactions for potential recognition or disclosure through August 12, 2023, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards, but not considered a part of the basic financial statements.

CITY OF ELSA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final	GAAP Basis	Positive or (Negative)
REVENUES:				
Taxes:				
Property Taxes	\$ 1,676,601	\$ 1,676,601	\$ 1,384,409	\$ (292,192)
General Sales and Use Taxes	1,084,000	1,084,000	1,186,848	102,848
Franchise Tax	259,361	259,361	247,959	(11,402)
Penalty and Interest on Taxes	70,725	70,725	60,589	(10,136)
Licenses and Permits	36,290	36,290	113,048	76,758
Intergovernmental Revenues and Grants	-	-	462,304	462,304
Charges for Services	1,128,197	1,128,197	1,303,953	175,756
Fines	222,442	222,442	193,175	(29,267)
Contributions & Donations from Private Sources	-	-	12,550	12,550
Other Revenue	456,902	456,902	207,210	(249,692)
Total Revenues	<u>4,934,518</u>	<u>4,934,518</u>	<u>5,172,045</u>	<u>237,527</u>
EXPENDITURES:				
Current:				
General Government	2,228,910	2,228,910	2,337,086	(108,176)
Public Safety	1,545,279	1,545,279	1,949,768	(404,489)
Public Works	487,803	487,803	564,601	(76,798)
Health and Welfare	204,662	204,662	273,908	(69,246)
Culture and Recreation	233,321	233,321	246,063	(12,742)
Debt Service:				
Principal on Debt	284,543	284,543	120,375	164,168
Interest on Debt	-	-	17,323	(17,323)
Capital Outlay:				
Capital Outlay	-	-	-	-
Total Expenditures	<u>4,984,518</u>	<u>4,984,518</u>	<u>5,509,124</u>	<u>(524,606)</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	<u>(50,000)</u>	<u>(50,000)</u>	<u>(337,079)</u>	<u>287,079</u>
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	58,341	58,341
Transfers In	-	-	377,736	377,736
Transfers Out	-	-	(200,020)	(200,020)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>236,057</u>	<u>236,057</u>
Net Change in Fund Balance	(50,000)	(50,000)	(101,022)	(51,022)
Fund Balance - October 1 (Beginning)	<u>1,106,883</u>	<u>1,106,883</u>	<u>1,106,883</u>	<u>-</u>
Prior Period Adjustment			293,144	293,144
Fund Balance - September 30 (Ending)	<u>\$ 1,056,883</u>	<u>\$ 1,056,883</u>	<u>\$ 1,299,005</u>	<u>\$ 242,122</u>

CITY OF ELSA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

Data Control Codes		201	500	600	Total Nonmajor Governmental Funds
		Cares Act	Interest and Sinking Fund	Pacific Trails Fund	
ASSETS					
1010	Cash and Cash Equivalents	\$ 238,422	\$ 333,716	\$ 16,129	\$ 588,267
1050	Taxes Receivable	-	176,262	-	176,262
1051	Allowance for Uncollectible Taxes (credit)	-	(100,622)	-	(100,622)
1260	Due from Other Governments	-	-	261,943	261,943
1300	Due from Other Funds	-	-	2,719	2,719
1000	Total Assets	<u>\$ 238,422</u>	<u>\$ 409,356</u>	<u>\$ 280,791</u>	<u>\$ 928,569</u>
LIABILITIES					
2080	Due to Other Funds	\$ 238,422	\$ -	\$ 200,000	\$ 438,422
2000	Total Liabilities	<u>238,422</u>	<u>-</u>	<u>200,000</u>	<u>438,422</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	75,640	-	75,640
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>75,640</u>	<u>-</u>	<u>75,640</u>
FUND BALANCES					
Restricted Fund Balance:					
3490	Restricted for Debt Service	-	333,716	-	333,715
Committed Fund Balance:					
3510	Restricted for Capital Projects	-	-	80,791	80,792
3000	Total Fund Balances	<u>-</u>	<u>333,716</u>	<u>80,791</u>	<u>414,507</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 238,422</u>	<u>\$ 409,356</u>	<u>\$ 280,791</u>	<u>\$ 928,569</u>

CITY OF ELSA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Data Control Codes	201 Cares Act	500 Interest and Sinking Fund	600 Pacific Trails Fund	Total Nonmajor Governmental Funds
REVENUES:				
Taxes:				
5110 Property Taxes	\$ -	\$ 292,913	\$ -	\$ 292,913
5190 Penalty and Interest on Taxes	-	28,494	-	28,494
5300 Intergovernmental Revenue and Grants	<u>74,742</u>	<u>-</u>	<u>285,772</u>	<u>360,514</u>
5020 Total Revenues	<u>74,742</u>	<u>321,407</u>	<u>285,772</u>	<u>681,921</u>
EXPENDITURES:				
Current:				
0100 General Government	74,742	-	-	74,742
Capital Outlay:				
0800 Capital Outlay	<u>-</u>	<u>-</u>	<u>363,073</u>	<u>363,073</u>
6030 Total Expenditures	<u>74,742</u>	<u>-</u>	<u>363,073</u>	<u>437,815</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>321,407</u>	<u>(77,301)</u>	<u>244,106</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	107,781	107,781
8911 Transfers Out	<u>-</u>	<u>(361,736)</u>	<u>-</u>	<u>(361,736)</u>
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>(361,736)</u>	<u>107,781</u>	<u>(253,955)</u>
1200 Net Change in Fund Balance	-	(40,329)	30,480	(9,849)
0100 Fund Balance - October 1 (Beginning)	-	414,548	208,659	623,207
1300 Prior Period Adjustment	<u>-</u>	<u>(40,504)</u>	<u>(158,347)</u>	<u>(198,851)</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ 333,715</u>	<u>\$ 80,792</u>	<u>\$ 414,507</u>

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SINGLE AUDIT SECTION

ADRIAN WEBB, CPA

Certified Public Accountant

McAllen, Texas

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

Independent Auditor's Report

To the City Commission of
City of Elsa, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elsa, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Elsa, Texas' basic financial statements and have issued our report thereon dated September 12, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Elsa's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Elsa's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Elsa's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-001, and 2022-002 to be material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-003, and 2022-004 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Elsa' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Elsa' Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Adrian Webb, CPA

ADRIAN WEBB, CPA
Certified Public Accountant
McAllen, Texas

September 12, 2023

ADRIAN WEBB, CPA

Certified Public Accountant

McAllen, Texas

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

To the City Commission of
City of Elsa, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Elsa, Texas compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Elsa, Texas major federal programs for the year ended September 30, 2022. City of Elsa, Texas major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Elsa, Texas compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Elsa, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Report on Internal Control over Compliance

Management of the City of Elsa, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Elsa, Texas internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Elsa, Texas internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Adrian Webb, CPA

ADRIAN WEBB, CPA
McAllen, Texas

September 12, 2023

**CITY OF ELSA, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

I. Summary of the Auditor's Results:

FINANCIAL SECTION:

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

FEDERAL AWARDS SECTION:

- | | |
|--|------------|
| D. The type of report issued: | Unmodified |
| E. Internal control over Major Programs: | |
| Material Weakness identified? | No |
| Significant Deficiency identified which
were not considered to be material weaknesses? | No |
| F. Any audit findings disclosed that are required to be reported in
Accordance with the Uniform Guidance? | No |
| G. Identification of Major Programs: | |
| 97.044 – Department of Homeland Security – Assistance to Firefighters Grant | |
| 21.027 – American Rescue Plan | |
| 21.019 – Cares Act | |
| H. Dollar threshold to distinguish between Type A and Type B | \$750,000 |
| I. Auditee qualifies as a low-risk auditee | No |

**CITY OF ELSA, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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

2022-001 Controls over Reporting of Financial Information to State Agency

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

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

Cause: The delay was caused by key administrative changes and the COVID-19 pandemic and its effect on all entities preparing the previous audits causing a delay in the completion of the September 30, 2022, audit.

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

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

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

2022-002 Capital Assets

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

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

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.

**CITY OF ELSA, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

2022-003 Expenditures in Excess of Budget Appropriations

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

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

Effect: The City incurred expenditures that were not budgeted, or amounts approved by the City Commission for the fiscal year ended September 30, 2022.

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.

2022-004 Compliance over Formal Competitive Procurement

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

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

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, 2022

2021-001 Controls over Reporting of Financial Information to State Agency

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

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

Status: See Current Year Findings.

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

Status: See Current Year Findings.

2021-003 Controls over Accounting Records

Criteria: There should be a complete set of accounting records for each fund which includes the: 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 detailed 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: Corrected.

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.

Status: See Current Year Findings.

CITY OF ELSA, TEXAS
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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 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: Corrected.

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.

Status: See Current Year Findings.

CITY OF ELSA, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL & STATE AWARDS
For the Year Ended September 30, 2022

Federal Grantor Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through To Subrecipients	Expenditures
U.S. Department of Treasury				
American Rescue Plan	21.027		-	\$ 455,590
Cares Act	21.019		-	\$ 74,742
U.S. Department of Homeland Security				
Assistance to Firefighters Grant	97.044	EMW-2020-FG-17820	-	\$ 251,022
Total Expenditures of Federal Awards				<u>\$ 781,354</u>

CITY OF ELSA, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

NOTE 2: INDIRECT COST RATE

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

NOTE 3: FEDERAL LOANS AND LOAN GUARANTEES

During the fiscal year ended September 30, 2022, the City had no outstanding federal loans payable or loan guarantees.

NOTE 4: SUB-RECIPIENTS

During the fiscal year ended September 30, 2022, the City did not have any sub-recipients.

NOTE 5: NONCASH AWARDS

During the fiscal year ended September 30, 2022, the City did not receive any non-cash assistance.

NOTE 6: FEDERALLY FUNDED INSURANCE

During the fiscal year ended September 30, 2022, the City had no outstanding federally funded insurance.

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CITY OF ELSA, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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

2022-001 Controls over Reporting of Financial Information to State Agency

Corrective Action Plan

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

Proposed Completion Date – September 30, 2023

Contact Person – Juanita Maciel-Collins, Finance Director

2022-002 – Capital Assets

Corrective Action Plan

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

Proposed Completion Date – September 30, 2023

Contact Person – Juanita Maciel-Collins, Finance Director

2022-003 – Expenditures in Excess of Budget Appropriations

Corrective Action Plan

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

Proposed Completion Date – September 30, 2023

Contact Person – Juanita Maciel-Collins, Finance Director

2022-004 – Compliance over Formal Competitive Procurement

Corrective Action Plan

The City will conduct an evaluation of vendors when the monetary threshold surpasses \$50,000. Once the threshold is passed, the City will follow a formal competitive procurement process.

Proposed Completion Date – September 30, 2023

Contact Person – Juanita Maciel-Collins, Finance Director