CITY OF ELSA, TEXAS

AUDITED ANNUAL FINANCIAL REPORT

FOR YEAR ENDED SEPTEMBER 30, 2025

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CITY OF ELSA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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FINANCIAL SECTION

ADRIAN WEBB, CPA

Certified Public Accountant
Edinburg, Texas

INDEPENDENT AUDITOR'S REPORT

To the City Commission of
City of Elsa, Texas

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elsa, Texas, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Elsa, Texas's basic financial statements as listed in the table of contents.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-type Activities	Qualified
Aggregate Discretely Presented Component Units	Unmodified
Major Enterprise Fund	Qualified
Remaining Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Qualified Opinions on Governmental Activities, Business-type activities, and Major Enterprise Fund

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, and major enterprise Fund of the City of Elsa, Texas, as of September 30, 2025, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Aggregate Discretely Presented Component Units, Major Funds (Excluding Major Enterprise Fund), and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Aggregate Discretely Presented Component Units, major funds (excluding Major Enterprise Fund), and the aggregate remaining fund information of the City of Elsa, Texas, as of September 30, 2025, and the respective 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 and Unmodified Opinions

We conducted our audit of the financial statements of the governmental activities and the business-type activities in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Elsa, Texas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinions on Governmental Activities, Business-Type Activities, and the Major Enterprise Fund

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government 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 and *Government Auditing Standards,* we:

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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Required Supplementary Information

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

Supplementary Information

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, 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 March 27, 2026, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Elsa's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Elsa's internal control over financial reporting and compliance.

Adrian Webb, CPA

Adrian Webb, CPA
Edinburg, Texas
March 27, 2026

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MANAGEMENT'S DISCUSSION & ANALYSIS

In this section of the Annual Financial Report, we, the City's management discuss and analyze the City's financial performance for the fiscal year ended September 30, 2025. Please read in conjunction with the Independent Auditors' Report and the City's Basic Financial Statements.

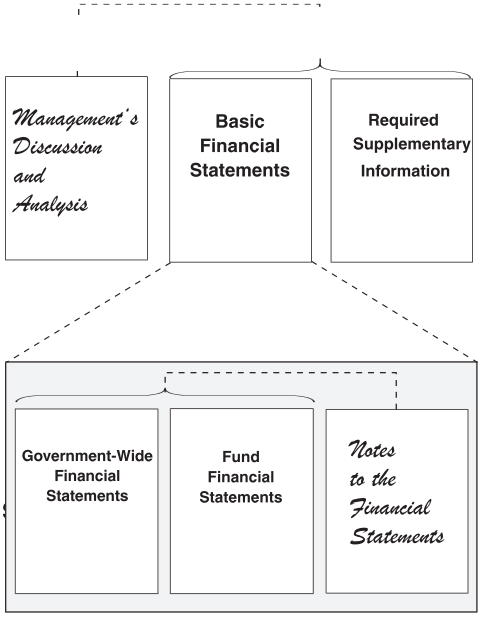
FINANCIAL HIGHLIGHTS

The City's overall total change in net position was an increase of $582,793 as of September 30, 2025. The change is composed of Governmental Activities' net position of $9,807,414 and Business-Type Activities' net position of $13,830,893 for a total of $23,638,307 ending balance.

USING THIS ANNUAL REPORT

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

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



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

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

Reporting the City as a Whole

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

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

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

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 the utility fund as a proprietary fund.

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.

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 $582,793 during the current fiscal year.

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

	Governmental Activities		Business-Type Activities		Totals		Increase
	2025	2024	2025	2024	2025	2024	(Decrease)
Current Assets							
Cash and Cash Equivalents	$ 1,229,833	$ 6,068,618	$ 251,899	$ 250,348	$ 1,481,732	$ 6,318,967	$ (4,837,235)
Investments	4,623,062	-	-	-	4,623,062	-	4,623,062
Taxes Receivable, Net	832,001	448,361	-	-	832,001	448,361	383,640
Accounts Receivable, Net	437,775	1,256,139	107,210	121,499	544,985	1,377,638	(832,653)
Due from Other Funds	738,827	553,896	-	-	738,827	553,896	184,931
Due from Others	7,159	6,545	-	-	7,159	6,545	614
Total current assets	7,868,657	8,333,559	359,109	371,847	8,227,766	8,705,406	(477,640)
Capital Assets, Net	7,355,726	6,572,995	14,282,452	14,282,452	21,638,178	20,855,447	782,731
Total Assets	15,224,382	14,906,554	14,641,561	14,654,299	29,865,944	29,560,853	305,091
Current Liabilities							
Payroll Liabilities	48,465	38,437	-	-	48,465	38,437	10,028
Unearned Revenues	-	95,550	-	-	-	95,550	(95,550)
Debt Service - Current	312,875	363,686	80,682	80,682	393,557	444,368	(50,811)
Other Current Liabilities	30,628	49,054	729,986	540,055	760,614	589,109	171,505
Total Current Liabilities	391,968	546,727	810,668	620,737	1,202,636	1,167,463	35,173
Non-Current Liabilities							
Debt Service - Noncurrent	5,025,000	5,337,875		-	5,025,000	5,337,875	(312,875)
Total Non-Current Liabilities	5,025,000	5,337,875	-	-	5,025,000	5,337,875	(312,875)
Total Liabilities	5,416,968	5,884,602	810,668	620,737	6,227,636	6,505,338	(277,702)
Net Position							
Net Invested in Capital Assets	2,017,851	871,434	14,282,452	14,282,452	16,300,303	15,153,886	1,146,417
Restricted	5,461,657	5,195,580	-	-	5,461,657	5,195,580	266,077
Unrestricted	2,327,906	2,954,938	(451,558)	(248,889)	1,876,348	2,706,049	(829,701)
Total Net Position	$ 9,807,414	$ 9,021,952	$ 13,830,893	$ 14,033,562	$ 23,638,307	$ 23,055,514	$ 582,793

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Total revenues decreased by $956,602 and total expenses increased by $498,340. The change in net position for the current fiscal year was an increase of $582,793.

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

	Governmental Activities		Business- Type		Totals		Increase
	2025	2024	2025	2024	2025	2024	(Decrease)
Revenues							
Program Revenues							
Charges for Services	$ 668,850	$ 1,105,678	$ 1,626,808	$ 1,495,879	$ 2,295,658	$ 2,601,557	$ (305,899)
General Revenues							
Property Taxes	2,320,434	2,188,969	-	-	2,320,434	2,188,969	131,465
Sales Taxes	1,354,120	1,400,077	-	-	1,354,120	1,400,077	(45,957)
Franchise Taxes	223,097	226,437	-	-	223,097	226,437	(3,340)
Penalty and Interest	121,631	70,718	-	-	121,631	70,718	50,913
Miscellaneous Revenue	872,802	719,209	-	-	872,802	719,209	153,593
Intergovernmental Revenue and Grants	1,364,666	1,350,869	-	-	1,364,666	1,350,869	13,797
Transfers	(261,984)	689,189	-	-	(261,984)	689,189	(951,173)
Total Revenues	6,663,616	7,751,147	1,626,808	1,495,879	8,290,424	9,247,026	(956,602)
Expenses							
General Government	4,017,597	3,177,544	-	-	4,017,597	3,177,544	840,053
Public Safety	748,534	995,608	-	-	748,534	995,608	(247,074)
Public Works	703,188	845,740	-	-	703,188	845,740	(142,552)
Health and Welfare	28,332	95,889	-	-	28,332	95,889	(67,557)
Culture and Recreational	95,017	144,556	-	-	95,017	144,556	(49,539)
Debt Interest	285,486	234,467	-	-	285,486	234,467	51,019
Water and Sewer	-	-	1,829,477	1,715,487	1,829,477	1,715,487	113,990
Total Expenses	$ 5,878,154	$ 5,493,804	$ 1,829,477	$ 1,715,487	$ 7,707,631	$ 7,209,291	498,340
Change in Net Position	785,462	2,257,343	(202,669)	(219,608)	582,793	2,037,735	(1,454,942)
Net Position Beginning	9,021,952	6,764,609	14,033,563	14,253,171	23,055,515	21,017,780	2,037,735
Net Position Ending	**$ 9,807,414**	**$ 9,021,952**	**$ 13,830,893**	**$ 14,033,563**	**$ 23,638,307**	**$ 23,055,515**	**$ 582,793**

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, unassigned 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 unassigned fund balance of the General Fund had a balance of $1,855,727.

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Capital Assets and Debt Administration

Capital Assets

The City's investments in capital assets for its governmental activities amount to $2,017,851 (net of accumulated depreciation) for 2025. Business-type activities amounted to $14,282,452 for 2025. This investment in capital assets includes land, buildings, construction in progress, machinery and equipment, infrastructure/streets, and vehicles. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table A-3

	Governmental Activities		Business-Type		Totals		Increase/
	2025	2024	2025	2024	2025	2024	(Decrease)
Capital Assets							
Land	$ 154,191	$ 154,191	$ 13,046	$ 13,046	$ 167,237	$ 167,237	$ -
Buildings	2,012,215	1,661,234	-	-	2,012,215	1,661,234	350,981
Furniture and Equipment	3,970,139	3,970,139	861,921	861,921	4,832,060	4,832,060	-
Infrastructure/Streets	4,345,286	3,853,731	18,944,582	18,944,582	23,289,868	22,798,313	491,555
Right-of-Use Assets	213,846	213,846	-	-	213,846	213,846	-
Total Capital Assets	10,695,678	9,853,142	19,819,550	19,819,550	30,515,228	29,672,692	842,536
Less: Accumulated Depreciation	(3,339,952)	(3,280,147)	(5,537,098)	(5,537,098)	(8,877,050)	(8,817,245)	(59,805)
Total Capital Assets (Net)	**$ 7,355,726**	**$ 6,572,995**	**$ 14,282,452**	**$ 14,282,452**	**$ 21,638,178**	**$ 20,855,447**	**$ 782,731**

Long-Term Debt

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

	Governmental Activities		Business-Type		Totals		Increase
	2025	2024	2025	2024	2025	2024	(Decrease)
Long-Term Obligations	$ 5,330,000	$ 5,633,671	$ -	$ -	$ 5,330,000	$ 5,633,671	$ (303,671)
Leases Payable, Net	7,875	67,890	-	-	7,875	67,890	(60,015)
Current Portion	312,875	363,686	-	-	312,875	363,686	(50,811)
Total Long-Term Debt	$ 5,650,750	$ 6,065,247	$ -	$ -	$ 5,650,750	$ 6,065,247	$ (414,497)

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

Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year end 2025-2026 budget.

1. The ad valorem property tax rate was set at $.7800 to generate the revenues necessary for the operation of the City.
2. The general operating fund spending budget for 2025-2026 was prepared based on the historical actual 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 information provided in this report or the component unit (EDC) should be addressed to the Office of the City Elsa, City Administrator: 121 P.O. Box 427, Elsa, Texas 78543.

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BASIC FINANCIAL STATEMENTS

City of Elsa
Statement of Net Position
September 30, 2025

	Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Units
ASSETS:				
Current Assets:				
1010 Cash and Cash Equivalents	$ 1,229,833	$ 251,899	$ 1,481,732	$ 912,862
1032 Investments	4,623,062	-	4,623,062	-
Receivables (Net of Allowance for Uncollectible):				
1050 Taxes Receivable, Net	832,001	-	832,001	100,927
1150 Accounts Receivable, Net	437,775	107,210	544,985	-
1260 Due from Other Governments	7,159	-	7,159	-
1300 Due from Other Funds	738,827	-	738,827	-
Total Current Assets	7,868,656	359,109	8,227,765	1,013,790
Noncurrent Assets:				
Capital Assets				
1791 Capital Assets Not Being Depreciated	154,191	13,046	167,237	2,641,481
1792 Capital Assets Being Depreciated	10,541,487	19,806,504	30,347,990	-
1780 Accumulated Depreciation	(3,339,952)	(5,537,098)	(8,877,050)	-
Total Capital Assets	7,355,726	14,282,452	21,638,177	2,641,481
Total Noncurrent Assets	7,355,726	14,282,452	21,638,177	2,641,481
TOTAL ASSETS	15,224,382	14,641,561	$ 29,865,942	$ 3,655,271
LIABILITIES:				
Current Liabilities:				
2013 Accrued Interest	20,104	-	20,104	-
2015 Customer Deposits	4,402	80,682	85,084	-
2020 Payroll Liabilities	48,465	-	48,465	-
2080 Due to Other Funds	6,122	729,986	736,108	2,719
Total Current Liabilities	79,093	810,668	889,760	2,719
Noncurrent Liabilities:				
Debt Service				
2506 Due Within One Year	312,875	-	312,875	230,410
2507 Due in More Than One Year	5,025,000	-	5,025,000	-
Total Noncurrent Liabilities	5,337,875	-	5,337,875	230,410
TOTAL LIABILITIES	5,416,968	810,668	6,227,635	233,129
NET POSITION				
4001 Net Investment in Capital Assets	2,017,851	14,282,452	16,300,302	2,411,071
Restricted For:				
3006 Debt Service	271,706	-	271,706	-
3007 Capital Projects	4,682,914	-	4,682,914	-
3425 Economic Development	-	-	-	1,011,071
3890 Unrestricted	2,834,943	(451,558)	2,383,385	-
TOTAL NET POSITION	9,807,414	13,830,893	23,638,307	3,422,142
TOTAL LIABILITIES & NET POSITION	$ 15,224,382	$ 14,641,561	$ 29,865,942	$ 3,655,271

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

EXHIBIT B-1

City of Elsa
Statement of Activities
For the Year Ended September 30, 2025

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Discretely Presented Component Units
Primary Government:							
GOVERNMENTAL ACTIVITIES:							
General Government	$ 4,017,597	$ 219,034	$ 786,293	$ (3,012,270)	$ -	$ (3,012,270)	$ -
Public Safety	748,534	31,172	340,696	(376,666)	-	(376,666)	-
Public Works	703,188	218,378	237,677	(247,133)	-	(247,133)	-
Health and Welfare	28,332	-	-	(28,332)	-	(28,332)	-
Culture and Recreation	95,017	200,266	-	105,249	-	105,249	(814,417)
Interest on Debt	285,486	-	-	(285,486)	-	(285,486)	-
Total Governmental Activities	5,878,154	668,850	1,364,666	(3,844,638)	-	(3,844,638)	(814,417)
BUSINESS-TYPE ACTIVITIES:							
Water and Sewer	1,829,477	1,626,808	-	-	(202,669)	(202,669)	-
Total Business-Type Activities	1,829,477	1,626,808	-	-	(202,669)	(202,669)	-
TOTAL PRIMARY GOVERNMENT	7,707,631	2,295,658	1,364,666	(3,844,638)	(202,669)	(4,047,307)	(814,417)
General Revenues							
Taxes:							
Property Taxes, Levied for General Purposes				1,681,933	-	1,681,933	-
Property Taxes, Levied for Debt Service				638,501	-	638,501	-
General Sales and Use Taxes				1,354,120	-	1,354,120	1,022,465
Franchise Tax				223,097	-	223,097	-
Other Taxes				56,425	-	56,425	-
Investment Earnings				174,241	-	174,241	-
Penalties and Interest on Taxes				121,631	-	121,631	-
Licenses, Permits, and Fines				444,236	-	444,236	-
Miscellaneous Revenue				197,899	-	197,899	600
Transfers In (Out)				(261,984)	-	(261,984)	261,984
Total General Revenues and Transfers				4,630,100	-	4,630,100	1,285,048
Change in Net Position				785,462	(202,669)	582,793	470,632
Net Position - Beginning				9,021,952	14,033,562	23,055,514	2,951,510
Net Position - Ending				$ 9,807,414	$ 13,830,893	$ 23,638,307	$ 3,422,142

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

City of Elsa
Balance Sheet - Governmental Funds
September 30, 2025

		Major Governmental Funds				
		General Fund	Interest and Sinking Fund	Community Center Project Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS:						
1010	Cash and Cash Equivalents	$ 894,872	$ 271,706	$ 57,133	$ 6,122	$ 1,229,833
1032	Investments	-	-	4,623,062	-	4,623,062
1050	Taxes Receivable, Net	647,333	184,668	-	-	832,001
1150	Accounts Receivable, Net	437,775	-	-	-	437,775
1260	Due from Other Governments	7,159	-	-	-	7,159
1300	Due from Other Funds	736,108	-	-	2,719	738,827
	TOTAL ASSETS	2,723,246	456,375	4,680,194	8,841	7,868,656
LIABILITIES:						
2015	Customer Deposits	4,402	-	-	-	4,402
2020	Payroll Liabilities	48,465	-	-	-	48,465
2080	Due to Other Funds	-	-	-	6,122	6,122
	TOTAL LIABILITIES	52,867	-	-	6,122	58,989
DEFERRED INFLOWS OF RESOURCES:						
2601	Deferred Resource Inflow - Property Taxes	416,468	184,668	-	-	601,136
2606	Deferred Resource Inflow - Court Fines	398,184	-	-	-	398,184
	TOTAL DEFERRED INFLOWS OF RESOURCES	814,652	184,668	-	-	999,320
FUND BALANCES:						
Restricted for:						
3006	Debt Service	-	271,706	-	-	271,706
3007	Capital Projects	-	-	4,680,194	2,719	4,682,914
3600	Unassigned	1,855,727	-	-	-	1,855,727
	TOTAL FUND BALANCES	1,855,727	271,706	4,680,194	2,719	6,810,347
TOTAL LIABILITIES, DEFERRED INFLOWS & FUND BALANCES		$ 2,723,246	$ 456,375	$ 4,680,194	$ 8,841	$ 7,868,656

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

EXHIBIT C-2

City of Elsa
Reconciliation of the Balance Sheet - Governmental to the Governmental Activities - Statement of Net Position
September 30, 2025

Total Fund Balances - Governmental Funds		$	6,810,347
Amounts Reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources, and therefore are not reported in governmental funds:			
Capital Assets Not Being Depreciated	154,191		
Capital Assets Being Depreciated	10,541,487		
Accumulated Depreciation	(3,339,952)		
Total Capital Assets, Net			7,355,726
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities at the fund level.			
Debt Service - Due Within One Year	(312,875)		
Debt Service - Due in More Than One Year	(5,025,000)		
Total Long-Term Liabilities			(5,337,875)
Some receivables are reported as deferred inflows of resources at the governmental level, and therefore are not reported in governmental funds.			
Property Taxes	601,136		
Court Fines	398,184		
Total Deferred Inflows of Resources			999,320
Interest on long-term debt is not accrued in the governmental funds, but is recognized as an expenditure in the funds.			
Accrued Interest Payable	(20,104)		
Total Accrued Interest Payable			(20,104)
Net position of governmental activities		$	9,807,414

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

City of Elsa
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
For The Year Ended September 30, 2025

		Major Governmental Funds				
		General Fund	Interest and Sinking Fund	Community Center Project Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes:						
5110	Property Taxes	$ 1,613,319	$ 614,295	$ -	$ -	$ 2,227,614
5120	General Sales and Use Taxes	1,354,120	-	-	-	1,354,120
5170	Franchise Tax	223,097	-	-	-	223,097
5180	Other Taxes	56,425	-	-	-	56,425
5190	Penalty and Interest on Taxes	97,925	23,706	-	-	121,631
5200	Licenses and Permits	281,959	-	-	-	281,959
5300	Intergovernmental Revenue and Grants	154,655	-	-	514,195	668,850
Fees and Charges:						
5400	Charges for Services	1,364,666	-	-	-	1,364,666
5406	Recreation and Events	89,701	-	-	-	89,701
5510	Fines	162,277	-	-	-	162,277
5610	Investment Earnings	-	-	174,241	-	174,241
5700	Other Revenue	108,198	-	-	-	108,198
	TOTAL REVENUES	5,506,343	638,001	174,241	514,195	6,832,780
EXPENDITURES:						
Current:						
100	General Government	3,456,808	-	-	-	3,456,808
200	Public Safety	644,051	-	-	-	644,051
310	Public Works	605,035	-	-	-	605,035
400	Health and Welfare	24,378	-	-	-	24,378
500	Culture and Recreation	81,754	-	-	-	81,754
Debt Service:						
710	Principal on Debt	56,971	303,672	-	-	360,643
720	Interest on Debt	-	289,514	-	-	289,514
800	Capital Outlay	8,113	-	342,867	491,555	842,536
	TOTAL EXPENDITURES	4,877,111	593,186	342,867	491,555	6,304,719
	Excess(Deficiency) of Revenues Over(Under) Expenditures	629,232	44,815	(168,627)	22,639	528,061
OTHER FINANCING SOURCES (USES):						
7915	Transfers In	139,788	-	-	-	139,788
8911	Transfers Out	(261,984)	-	(44,238)	(95,550)	(401,772)
	TOTAL OTHER FINANCING SOURCES (USES)	(122,195)	-	(44,238)	(95,550)	(261,984)
	Net Change in Fund Balances	507,037	44,815	(212,865)	(72,911)	266,077
3600	Fund Balance - Beginning	1,348,690	226,891	4,893,059	75,630	6,544,270
3900	Fund Balance - Ending	$ 1,855,727	$ 271,706	$ 4,680,194	$ 2,719	$ 6,810,347

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

EXHIBIT C-4

City of Elsa
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to the Governmental Activities - Statement of Activities
For the Year Ended September 30, 2025

Total Net Change in Fund Balances - Governmental Funds		$	266,077
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the current year's capital outlays is to increase (decrease) the change in net position.			
Additions to Capital Assets	842,536		
Depreciation of Capital Assets	(59,805)		
			782,731
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			
Principal Repayment	360,643		
			360,643
Interest on long-term debt is not accrued in the governmental funds, but it is recognized as an expenditure at the fund level.			
Accrued Interest Payable	4,028		
			4,028
Because some property taxes and accounts receivable will not be collected for several months after the City's year end, they are not considered "available" revenues in the governmental funds. This represents the change in unavailable revenue from the prior year.			
Property Taxes	155,818		
Court Fines	(783,835)		
			(628,017)
Change in Net Position of Governmental Activities		$	785,462

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

EXHIBIT D-1

City of Elsa
Statement of Net Position - Proprietary Funds
September 30, 2025

		Enterprise Fund
ASSETS:		
Current Assets:		
1010	Cash and Cash Equivalents	$ 251,899
1150	Accounts Receivable, Net	107,210
Total Current Assets		359,109
Noncurrent Assets:		
1791	Capital Assets Not Being Depreciated	13,046
1792	Capital Assets Being Depreciated	19,806,504
1780	Accumulated Depreciation	(5,537,098)
Total Noncurrent Assets		14,282,452
	TOTAL ASSETS	$ 14,641,561
LIABILITIES:		
Current Liabilities:		
2015	Customer Deposits	80,682
2080	Due to Other Funds	729,986
	TOTAL LIABILITIES	810,668
NET POSITION:		
4001	Net Investment in Capital Assets	14,282,452
3890	Unrestricted	(451,558)
	TOTAL NET POSITION	13,830,893
TOTAL LIABILITIES & NET POSITION		$ 14,641,561

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

EXHIBIT D-2

City of Elsa
Statement of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds
For the Year Ended September 30, 2025

		Enterprise Fund
OPERATING REVENUES:		
5401	Water Revenues	$ 949,014
5402	Sewer Revenues	673,929
5700	Other Revenue	3,865
	Total Operating Revenues	1,626,808
OPERATING EXPENSES:		
6100	Personnel Services	980,354
6300	Purchased Professional & Technical Services	85,954
6500	Maintenance and Contractual Services	479,466
6502	Repairs and Maintenance	106,974
6600	Supplies	176,730
	Total Operating Expenses	1,829,477
OPERATING INCOME(LOSS)		(202,669)
3890	**Net Position - Beginning**	$ 14,033,562
3900	**Net Position - Ending**	$ 13,830,893

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

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EXHIBIT D-3

City of Elsa
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2025

		Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total Receipts From Customers	$	1,641,097
Total Payments to Suppliers		(659,192)
Total Payments to Employees		(980,354)
Net Cash Flows Provided/(Used) by Operating Activities		1,551
Net Increase/Decrease in Cash and Cash Equivalents		1,551
Cash Beginning of Fiscal Year		250,348
Cash End of Fiscal Year	$	251,899
Reconciliation of Operating Income of Net Cash Provided/(Used) by Operating Activities		
Operating Income	$	(202,669)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Effect of Increases/Decreases in Current Assets and Liabilities		
Decrease (Increase) in Accounts Receivable		14,289
Increase(Decrease) in Due to Other Funds		189,931
Net Cash Provided (Used) by Operating Activities	$	1,551

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

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 financially 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.

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 include the following:

- The Elsa Economic Development Corporation (the "Corporation") is a Section 4B Non-Profit Economic Development Corporation governed by a seven-member board appointed by the City. The Corporation is funded through a sales tax levy of one half of one percent. The purpose of the Corporation is to promote economic development within the City. The City has a voting majority, imposition of will, financial benefit and financial accountability over the Corporation. The Corporation also maintains a September 30th fiscal year end.

- The Elsa Municipal Development District (the "District") was created pursuant to the provisions of Chapter 377 of the Texas Local Government Code by a general election. A ¼ cent sales tax was approved by the voters to fund the District's development projects. The City council appoints all the District's board members and can remove them at will. Since the City appoints the Board of Directors, the District provides services for the exclusive benefit of the City. The District also maintains a September 30th fiscal year end.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

C. SCOPE OF REPORTING ENTITY

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

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

The City of Elsa, Texas, Economic Development 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, Municipal Development 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

Debt Service Fund – Accounts for taxes collected and the repayment of debt principal and interest.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 non-major governmental funds:

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

Capital Projects Funds – 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.

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 fiduciary funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period, except for property taxes, which is 60 days required by GAAP. Expenditures generally are recorded when 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 data reflected in the financial statements:

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

H. ENCUMBRANCES

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding as of September 30, 2025.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 deposit are reported at carrying amount which reasonably 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.

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 of donation.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

As of September 30, 2025, the City has not adhered to the policies listed above. Refer to finding #2025-001 in the Schedule of Findings and Responses of this report. The right-of-use lease asset capitalization level is determined by the Board. The term of the lease must be the non-cancelable period during which the City has the right to use the tangible assets of another entity plus any periods in which either the lessee or the lessor has the sole option to extend the lease if it is reasonably certain the option will be exercised, plus any periods in which either the lessee or the lessor has the sole option to terminate the lease if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a lease under GASB 87. As of September 30, 2025, the City had $8,085 of right-of-use assets, net.

6. Accumulated Compensated Absences

The City recognizes a liability for compensated absences in accordance with applicable accounting standards for leave time that meets the following criteria: (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee benefit account) during or upon separation from employment. Any unused annual leave balances lapse at the end of the year if not taken by the employee. As a result, such leave does not meet the criteria for long-term liability recognition beyond the reporting period.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Leases

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

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 amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

9. Interfund Transactions

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Estimates

Preparation of financial statements in conformity with generally accepted accounting principles 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, useful lives and salvage values of depreciable assets. Estimates also include the likelihood of loss and potential loss amount from contingencies such as litigation. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied on October 1 become delinquent on February 1 of the following calendar year. Property tax revenues are recognized when they become available. The term "available" includes those taxes collected within sixty days of year-end.

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

12. Minimum Unassigned Fund Balance

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

13. Net Position Flow Assumption

The City may fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. 457 Plan

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

16. Recently Issued and Implemented Accounting Pronouncements

The Governmental Accounting Standards Board, "GASB" has issued the following statement which became effective for fiscal year 2025, and has been implemented:

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

The Governmental Accounting Standards Board, "GASB" has issued the following statement which become effective in future years:

- GASB Statement No. 103, "*Financial Reporting Model Improvements*"- The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues related to Management's Discussion and Analysis, unusual or infrequent items, Net Position of proprietary funds, Major Component Unit Information, and Budgetary Comparison Information. This statement is effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement 104, "*Disclosure of Certain Capital Assets*"- The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets separately in the capital assets note disclosures required by Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This statement is effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

- GASB Statement 105, "*Subsequent Events*"- The objective of this Statement is to define subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. This statement is effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter.

NOTE 2 DEPOSITS AND INVESTMENTS

A. Cash and Cash Equivalents

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

As of September 30, 2025, the carrying amount of the City’s deposits (cash) was $1,481,732 and the bank balance was $1,515,006. 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, 2025, the City’s funds that were held in both interest and non-interest-bearing accounts above FDIC coverage limits were fully collateralized.

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

B. Investments

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

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

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

As of September 30, 2025, 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, 2025.

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

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.

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

C. Discretely Presented Component Units

As of September 30, 2025, the carrying amount of the Municipal Development District and the Economic Development Corporation's deposits (cash) was $912,862 and the bank balance was $915,838, 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, 2025, the MDD's funds that were held in both interest and non-interest-bearing accounts were fully collateralized.

NOTE 3 AD VALOREM PROPERTY TAXES

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

Ad valorem taxes of $2,320,434 were assessed on property values totaling $293,204,407 using a tax rate of $0.7908 ($0.5732 for maintenance & operations and $0.2176 for debt service) per $100 assessed value.

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

NOTE 4 DISAGGREGATION OF RECEIVABLES

Receivables are recorded net of allowance for uncollectible accounts as of September 30, 2025, as summarized by the following table:

Description	Property Taxes	Sales Taxes	Court Fines	Trade	Due From Other Governments	Total
General Fund	$ 520,585	$ 230,865	$ 3,981,842	$ 74,470	$ 7,159	$ 4,814,921
Interest and Sinking	230,835	-	-	-	-	230,835
Enterprise Fund	-	-	-	167,993	-	167,993
Component Units	-	100,927	-	-	-	100,927
Total Receivables	751,420	331,792	3,981,842	242,463	7,159	5,314,677
Less: Allowance for Uncollectible	(150,284)	-	(3,583,658)	(95,663)	-	(3,829,605)
Total Receivables, Net	$ 601,136	$ 331,792	$ 398,184	$ 146,800	$ 7,159	$ 1,485,072

NOTE 5 DISAGGREGATION OF PAYABLES

Payables as of September 30, 2025, are summarized by the following table:

Description	Payroll Liabilities	Customer Deposits	Total
General Fund	$ 48,465	$ 4,402	$ 52,867
Total Payables	$ 48,465	$ 4,402	$ 52,867

NOTE 6 CAPITAL ASSETS

Capital Assets for Governmental Activities as of September 30, 2025, are as follows:

Description	Balance October 1, 2024	Additions	Retirements	Balance September 30, 2025
Governmental Activities:				
Capital Assets, not being depreciated/amortized:				
Land	$ 154,191	$ -	$ -	$ 154,191
Total Capital assets, not being depreciated/amortized	154,191	-	-	154,191
Capital Asset being depreciated/amortized:				
Buildings & Improvements	1,661,234	350,981	-	2,012,215
Furniture and Equipment	3,970,139	-	-	3,970,139
Infrastructure	3,853,731	491,555	-	4,345,286
Right-of-Use Assets	213,846	-	-	213,846
Total capital assets, being depreciated/amortized	9,698,951	842,536	-	10,541,487
Less accumulated depreciation/amortization:				
Buildings	(86,007)	-	-	(86,007)
Furniture and Equipment	(1,519,140)	-	-	(1,519,140)
Infrastructure	(1,529,044)	-	-	(1,529,044)
Right-of-Use Assets	(145,956)	(59,805)	-	(205,761)
Total accumulated depreciation/amortization	(3,280,147)	(59,805)	-	(3,339,952)
Total capital assets being depreciated/amortized, net	6,418,804	782,731	-	7,201,535
Capital Assets, Net	$ 6,572,995	$ 782,731	$ -	$ 7,355,726

NOTE 6 CAPITAL ASSETS (Continued)

Capital Assets for Business-Type Activities as of September 30, 2025, are as follows:

Description	Balance October 1, 2024	Additions	Retirements	Balance September 30, 2025
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	861,921	-	-	861,921
Infrastructure	18,944,582	-	-	18,944,582
Total capital assets, being depreciated	19,806,504	-	-	19,806,504
Less: Accumulated Depreciation	(5,537,098)	-	-	(5,537,098)
Total accumulated depreciation	(5,537,098)	-	-	(5,537,098)
Total capital assets being depreciated, net	14,269,406	-	-	14,269,406
Capital Assets, Net	$ 14,282,452	$ -	$ -	$ 14,282,452

Depreciation was 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, 2025, Refer to finding #2025-001 in the Schedule of Findings and Responses of this report.

Capital Assets for the component units as of September 30, 2025, are as follows:

Description	Balance October 1, 2024	Additions	Retirements	Balance September 30, 2025
Component Units				
Capital Assets, not being depreciated:				
Land	$ 2,641,481	$ -	$ -	$ 2,641,481
Total Capital assets, not being depreciated	2,641,481	-	-	2,641,481
Capital Assets, Net	$ 2,641,481	$ -	$ -	$ 2,641,481

NOTE 7 INTERFUND TRANSFERS AND BALANCES

Interfund balances as of September 30, 2025, consisted of the following individual fund balances:

	Due from Other Funds	Due to Other Funds
Governmental Activities		
General Fund:		
2022 HUD Project	$ 6,122	$ -
Enterprise Fund	729,986	-
Total General Fund	736,108	-
Pacific Trails Fund:		
4B Economic Development	-	8,281
Total Pacific Trails Fund	-	8,281
2022 HUD Project:		
General Fund	-	6,122
Total 2022 HUD Project	-	6,122
Total Governmental Activities	$ 736,108	$ 14,403
Business-Type Activities		
Enterprise Fund:		
General Fund	-	729,986
Total Enterprise Fund	-	729,986
Component Unit Activities		
4B Economic Development Fund:		
Pacific Trails	8,281	-
Total 4B Economic Development Fund	8,281	-
Total Interfund Balances	$ 744,388	$ 744,388

NOTE 7 INTERFUND TRANSFERS AND BALANCES (Continued)

Interfund transfers are generally short-term loans to cover temporary cash flows and reimbursements for various funds. The City's interfund transfers during the year ended September 30, 2025, are summarized as follows:

	Transfers In	Transfers Out
Governmental Activities		
General Fund:		
ARPA	$ 95,550	$ -
Community Center	44,238	-
Economic Development Corporation	-	259,658
Municipal Development District	-	2,325
Total General Fund	139,788	261,984
Community Center Fund		
General Fund	-	44,238
Total Community Center Fund	-	44,238
ARPA		
General Fund	-	95,550
Total ARPA	-	95,550
Total Governmental Activities	$ 139,788	$ 401,772
Component Unit Activities		
Municipal Development District:		
General Fund	2,325	
Total Municipal Development District	2,325	-
Economic Development Corporation		
General Fund	259,658	-
Total Economic Development Corporation	259,658	-
Total Interfund Balances	$ 401,772	$ 401,772

NOTE 8 LONG-TERM DEBT

The following table summarizes the City's long-term debt obligations for governmental activities as of September 30, 2025:

Description	Interest Rate	Maturity Date	Issuance Amount	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Governmental Activities:								
Bonds Payable								
Certificate of Obligation, Series 2024	4.45%	2039	5,000,000	$ 5,000,000	$ -	$ (50,000)	$ 4,950,000	$ 120,000
Total Bonds Payable				5,000,000	-	(50,000)	4,950,000	120,000
Notes Payable								
Tax Notes, Series 2023	6.22%	2027	800,000	550,000	-	(170,000)	380,000	185,000
Total Notes Payable				550,000	-	(170,000)	380,000	185,000
Leases Payable								
Copier Lease	7.50%	2025	277,424	48,503	-	(48,503)	-	-
Phone System Lease	7.50%	2026	38,653	14,464	-	(8,469)	5,996	5,996
Folding Machine Lease	7.50%	2028	13,804	4,922	-	(3,043)	1,879	1,879
Total Leases Payable				67,890	-	(60,014)	7,875	7,875
Financed Purchases								
KS State Bank	4.40%	2025	251,387	83,672	-	(83,672)	-	-
Total Financed Purchases				83,672	-	(83,672)	-	-
Total Governmental Activities				$ 5,701,561	$ -	$ (363,686)	$ 5,337,875	$ 312,875

The following table summarizes the City's long-term debt obligations for component unit activities as of September 30, 2025:

Description	Interest Rate	Maturity Date	Issuance Amount	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Component Unit Activities:								
Notes Payable								
Texas National Bank LOC	7.50%	2026	600,000	$ 381,130	$ -	$ (150,720)	$ 230,410	$ 230,410
Total Notes Payable				381,130	-	(150,720)	230,410	230,410
Total Component Unit Activities				$ 381,130	$ -	$ (150,720)	$ 230,410	$ 230,410

Governmental Activities:

The City's annual long-term debt requirements as of September 30, 2025, are summarized as shown by the following table:

Year Ending	Bonds and Notes Payable		
September 30,	Principal	Interest	Total
2026	$ 312,875	$ 241,244	$ 554,119
2027	335,000	224,032	559,032
2028	305,000	208,705	513,705
2029	320,000	195,133	515,133
2030	330,000	180,893	510,893
2031-2035	1,895,000	670,170	2,565,170
2036-2040	1,840,000	209,150	2,049,150
Total	$ 5,337,875	$ 1,929,326	$ 7,267,201

NOTE 8 LONG-TERM DEBT (Continued)

Bonds Payable

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

The City's annual long-term bonds payable requirements as of September 30, 2025, are summarized as shown by the following table:

Year Ending	Bonds Payable		
September 30,	Principal	Interest	Total
2026	$ 120,000	$ 220,275	$ 340,275
2027	140,000	214,935	354,935
2028	305,000	208,705	513,705
2029	320,000	195,133	515,133
2030	330,000	180,893	510,893
2031-2035	1,895,000	670,170	2,565,170
2036-2040	1,840,000	209,150	2,049,150
Total	$ 4,950,000	$ 1,899,260	$ 6,849,260

Notes Payable:

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

The City's annual long-term note payable requirements as of September 30, 2025, are summarized as shown by the following table:

Year Ending	Notes Payable		
September 30,	Principal	Interest	Total
2026	$ 185,000	$ 20,759	$ 205,759
2027	195,000	9,097	204,097
Total	$ 380,000	$ 29,856	$ 409,856

NOTE 8 LONG-TERM DEBT (Continued)

The City has entered into lease agreements as a lessee for financing the acquisition of vehicles. These lease agreements qualify as lease liabilities 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 lease liabilities as depreciation expense. The City also currently has purchase options for some of the equipment they are currently leasing.

The City's annual long-term lease payable requirements as of September 30, 2025, are summarized as shown by the following table:

Year Ending	Leases Payable		
September 30,	Principal	Interest	Total
2026	$ 7,875	$ 210	$ 8,085
Total	$ 7,875	$ 210	$ 8,085

Copier Lease

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

Phone System Lease

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

Folding Machine Lease

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

NOTE 8 LONG-TERM DEBT (Continued)

Financed Purchases

Government Capital
The City of Elsa, Texas, has financed the acquisition of vehicles with Prosperity Bank. The City entered into a lease agreement as lessee for financing the acquisition of the truck in the amount of $480,305 on July 2019. These lease agreements qualify as lease liabilities 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 has been paid in full as of September 30, 2025.

Component Unit Activities:

Texas National Bank
The Economic Development Corporation entered into a loan agreement for the development of the Pacific Trails Project. Funds will be borrowed/drawn on an “as needed" basis, and payments will be made throughout the loan period. Payments will be made based on amounts drawn. Loan agreement dated March 1, 2022, and final payments to be made on March 30, 2027. As of September 30, 2025, the principal amount outstanding was $230,410.

NOTE 9 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 audit or review by 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 10 RISK MANAGEMENT

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

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NOTE 11 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:

Violation	Action Taken
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 individual fund:

None.

NOTE 12 SUBSEQUENT EVENTS

The City has evaluated events and transactions for potential recognition or disclosure through March 27, 2026, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Elsa
Schedules of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual (Budgetary Basis)
For the Year Ended September 30, 2025

	Budgeted Amounts		Actual Amounts	
Revenues:	Original	Final	Budgetary Basis	Variance
Property Taxes	$ 1,640,710	$ 1,640,710	$ 1,613,319	$ (27,391)
General Sales and Use Tax	1,170,170	1,170,170	1,354,120	183,950
Franchise Tax	264,100	264,100	223,097	(41,003)
Other Tax	141,100	141,100	56,425	(84,675)
Penalty and Interest on Taxes	67,198	67,198	97,925	30,727
Licenses and Permits	152,465	152,465	281,959	129,494
Intergovernmental Revenue and Grants	512,556	512,556	154,655	(357,901)
Recreation and Events	64,000	64,000	89,701	25,701
Charges for Services	1,434,549	1,434,549	1,364,666	(69,883)
Fines	140,500	140,500	162,277	21,777
Rents & Royalties	20,473	20,473	-	(20,473)
Other Revenue	4,770	4,770	108,198	103,428
Total Revenues	5,612,591	5,612,591	5,506,343	(106,248)
Expenditures:				
General Government	3,547,437	3,547,437	3,456,808	90,629
Public Safety	1,203,722	1,203,722	644,051	559,671
Public Works	648,779	648,779	605,035	43,744
Health and Welfare	24,410	24,410	24,378	32
Culture and Recreation	276,577	276,577	81,754	194,823
Debt Service:				
Principal on Debt	-	-	56,971	-
Capital Outlay:				
Capital Outlay	-	-	8,113	(8,113)
Total Expenditures	5,700,925	5,700,925	4,877,111	880,786
Expenditures	(88,334)	(88,334)	629,232	774,538
Other Financing Sources (Uses):				
Transfers In	88,334	88,334	139,788	51,454
Total Other Funding Sources (Uses)	88,334	88,334	(122,195)	(210,529)
Change in Fund Balance	-	-	507,037	507,037
Fund Balance - Beginning	1,348,690	1,348,690	1,348,690	-
Fund Balance - Ending	$ 1,348,690	$ 1,348,690	$ 1,855,727	$ 507,037

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COMBINING NON-MAJOR FUND FINANCIAL STATEMENTS

EXHIBIT H-1

City of Elsa
Combining Balance Sheet - Nonmajor Governmental Funds
September 30, 2025

		Special Revenue	Capital Projects	
		Urban County Program	Pacific Trails Fund	Total Non-Major Funds
ASSETS:				
1010	Cash and Cash Equivalents	$ 6,122	$ -	$ 6,122
1300	Due from Other Funds	-	2,719	2,719
TOTAL ASSETS		6,122	2,719	8,841
LIABILITIES:				
2080	Due to Other Funds	6,122	-	6,122
	TOTAL LIABILITIES	6,122	-	6,122
FUND BALANCES:				
Restricted for:				
3007	Capital Projects	-	2,719	2,719
	TOTAL FUND BALANCES	-	2,719	2,719
TOTAL LIABILITIES & FUND BALANCES		$ 6,122	$ 2,719	$ 8,841

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

City of Elsa

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds

For the Year Ended September 30, 2025

		Special Revenue		Capital Project	
		American Recovery Plan Act	Urban County Program	Pacific Trails Fund	Total Non-Major Funds
REVENUES:					
5300	Intergovernmental Revenue and Grants	$ 95,550	$ 218,378	$ 200,266	$ 514,195
	TOTAL REVENUES	95,550	218,378	200,266	514,195
EXPENDITURES:					
800	Capital Outlay	-	218,378	273,177	491,555
	TOTAL EXPENDITURES	-	218,378	273,177	491,555
Excess(Deficiency) of Revenues Over(Under) Expenditures		95,550	-	(72,911)	22,639
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out	(95,550)	-	-	(95,550)
	TOTAL OTHER FINANCING SOURCES (USES)	(95,550)	-	-	(95,550)
	Net Change in Fund Balances	-	-	(72,911)	(72,911)
3600	Fund Balance - Beginning	-	-	75,630	75,630
3900	Fund Balance - Ending	$ -	$ -	$ 2,719	$ 2,719

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

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INTERNAL CONTROL/
COMPLIANCE SECTION

ADRIAN WEBB, CPA

Certified Public Accountant
Edinburg, Texas

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

Independent Auditor's Report

To the City Commission of
City of Elsa, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elsa, Texas, as of and for the year ended September 30, 2025, 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 March 27, 2026.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Elsa, Texas' 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, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Elsa, Texas' 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 responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses as item 2025-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Elsa, Texas' 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, Texas' Response to Findings

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

Purpose of this Report

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

Adrian Webb, CPA

ADRIAN WEBB, CPA
Certified Public Accountant
Edinburg, Texas
March 27, 2026

CITY OF ELSA, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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? No

C. The City did not meet the criteria for a Single Audit under the Uniform Guidance.

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

2025-001 Capital Assets (Material Weakness)

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

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

Cause: The City has implemented a capital asset system and management is currently in the process of entering and validating historical asset data. As a result, complete and accurate capital asset records have not yet been fully established.

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 PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings. The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit's schedule of findings and responses and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

2024-001 Capital Assets (Material Weakness)

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: Not corrected – see current year finding 2025-001.

2024-002 Expenditures in Excess of Budget Appropriations (Significant Deficiency)

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: Corrected.

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CITY OF ELSA, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Management of the City is responsible for developing and implementing corrective actions to address findings identified in the audit. The accompanying corrective action plan has been prepared to address each finding reported in the current year Schedule of Findings and Responses and includes the planned actions and anticipated completion dates.

2025-001 – Capital Assets

Corrective Action Plan

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

Proposed Completion Date – September 30, 2026

Contact Person – Juanita Maciel-Collins, Finance Director