
CITY OF MERCEDES, TEXAS

AUDITED ANNUAL FINANCIAL REPORT

FOR YEAR ENDED SEPTEMBER 30, 2022

ADRIAN WEBB
CERTIFIED PUBLIC ACCOUNTANT

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CITY OF MERCEDES, TEXAS
 Audited Annual Financial Report
 For Year Ended September 30, 2022

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INTRODUCTORY SECTION

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CITY OF MERCEDES, TEXAS

For the Year Ended September 30, 2022

CITY OFFICIALS

Oscar D. Montoya Sr.

Mayor

Joe Martinez

Mayor Pro-Tem

Jacob C. Howell

Commissioner

Leonel Benavidez

Commissioner

Jose M. Gomez

Commissioner

GENERAL MANAGER

Alberto Perez

FINANCE DIRECTOR

Nereida Perez

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INDEPENDENT AUDITORS' REPORT

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ADRIAN WEBB, CPA

Certified Public Accountant

McAllen, Texas

Independent Auditor's Report

To the City Council of the
City of Mercedes, Texas

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 Mercedes, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Mercedes, Texas' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 Mercedes, Texas, as of September 30, 2022, and the respective 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Mercedes, 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 audit opinions.

Emphasis of Matter - Change of Accounting Principle

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

Management's Responsibility for the Financial Statements

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

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 Mercedes, 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 Responsibility

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Mercedes, 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 Mercedes, 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.

Required Supplementary Information

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

Supplementary Information

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

The combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards 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, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Report and Financial Statements

Management is responsible for the other information included in the Annual Audit Report and Financial Statements. The other information comprises the introductory section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February - 15, 2023, on our consideration of the City of Mercedes, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Mercedes, Texas' 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 the City of Mercedes, Texas' internal control over financial reporting and compliance.

Adrian Webb, CPA

Adrian Webb
Certified Public Accountant

McAllen, Texas

February 15, 2023

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2022**

As management of the City of Mercedes, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Mercedes for the fiscal year ended September 30, 2022. We encourage readers to consider the information presented here in conjunction with the independent auditors' report on page 1- and the City's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The City's total net position increased by \$3,583,715. Net position from governmental activities increased \$2,588,274, while net position from business-type activities increased \$968,702.
- Revenues for the City's business-type charges for services increased from \$5,035,806 to \$6,093,605 and expenses increased from \$5,396,133 to \$5,489,667.
- The General Fund ended the year with a fund balance of \$7,540,756, a \$1,596,942, increase from prior year's balance of \$5,943,814.
- In comparing the General Fund's final budget to actual, revenues were \$2,470,333 more than the final budget, and expenditures were \$139,128 less than final budget. This resulted in a total positive budget to actual variance of \$2,609,458 not including other financing sources (uses).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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 required supplementary information and other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole and present a longer-term view of the City's finances. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources of the City, and the statements are presented on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Activities of the City as a whole include governmental activities, and business-type activities. Governmental activities are those activities, which are financed primarily through taxes and grants.

Most of the City's basic services are reported as governmental activities. Business-type activities are those activities that are intended to recover all or a significant portion of their costs through user fees and charges. Utility system operations are a common example of business-type activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Development Corporation of Mercedes (DCM) and the Mercedes Industrial Foundation, Inc., which are legally separate entities, and are reported as discretely presented component units. These are other governmental units of which the City (the City Commission, acting as a group) can exercise influence. Financial information for Development Corporation of Mercedes is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 9-10 of this report.

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2022**

FUND FINANCIAL STATEMENTS

The fund financial statements begin on page 11-19 and provide detail information about the most significant funds – not the City as a whole. Some funds are required to be established by law, bond covenants or by contracts. Still other funds are established by the City Commission to assist in managing money that is to be spent 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, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the 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). The proprietary funds use the accrual basis, the same accounting method employed in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 20-54 of this report.

THE CITY'S FUNDS

Being that the City is a government entity, it tracks all transactions using fund accounting. What this means is that it isolates different types of activity into funds, which it then tracks separately. Each fund essentially becomes its own entity, which then interacts with other funds. This allows for separate management of governmental funds, grants, enterprise funds (utility fund) and any other restricted funds.

As a result of this year's operations, all combined governmental funds, including capital projects and debt service funds (as presented in the balance sheet on page -) reported a combined fund balance of \$,,, a decrease of (\$,). The decrease is due to the continuance of construction projects that were funded with the issuance of a bond in previous year.

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities increased from \$14,584,799 to \$17,173,073. Unrestricted net position – the part of net position that can be used to finance day to day operations without constraints from debt covenants, legislation or other legal requirements was \$6,861,690 at September 30, 2022.

In 2022, net position of business-type activities decreased from \$25,971,456 to \$26,940,158. Table I, below illustrates a comparative summary of the City's statement of net position as of September 30, 2022, and 2021.

Table I

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>		<u>Increase</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>(Decrease)</u>
Current Assets	\$ 18,414,303	\$ 13,561,621	\$ 1,799,103	\$ (2,665,466)	\$ 20,213,406	\$ 10,896,155	\$ 9,317,251
Capital Assets, Net	34,285,453	33,437,930	34,809,436	35,876,720	69,094,889	69,314,650	(219,761)
Total Assets	52,699,756	46,999,551	36,608,539	33,211,254	89,308,295	80,210,805	9,097,490
Deferred Outflows of Resources	1,248,800	969,209	183,532	178,349	1,432,332	1,147,558	284,774
Total assets and deferred outflows of resources	<u>53,948,556</u>	<u>47,968,760</u>	<u>36,792,071</u>	<u>33,389,603</u>	<u>90,740,627</u>	<u>81,358,363</u>	<u>9,382,264</u>
Other Liabilities	7,521,212	3,931,268	1,355,984	1,152,892	8,877,196	5,084,160	3,793,036
Long-Term Liabilities	27,647,322	28,339,539	8,357,537	6,156,224	36,004,859	34,495,763	1,509,096
Total Liabilities	<u>35,168,534</u>	<u>32,270,807</u>	<u>9,713,521</u>	<u>7,309,116</u>	<u>44,882,055</u>	<u>39,579,923</u>	<u>5,302,132</u>
Deferred Inflows of Resources	1,606,949	1,113,154	138,392	109,031	1,745,341	1,222,185	523,156
Net Invested in Capital Assets	6,300,226	14,543,463	25,360,913	29,971,324	31,661,139	44,514,787	(12,853,648)
Restricted	4,011,157	1,994,959	-	-	4,011,157	1,994,959	2,016,198
Unrestricted	6,861,690	(1,953,623)	1,579,245	(3,999,868)	8,440,935	(5,953,491)	14,394,426
Total Net Position	<u>17,173,073</u>	<u>14,584,799</u>	<u>26,940,158</u>	<u>25,971,456</u>	<u>44,113,231</u>	<u>40,556,255</u>	<u>3,556,976</u>
Total Liabilities, deferred inflows of resources and net position	<u>\$ 53,948,556</u>	<u>\$ 47,968,760</u>	<u>\$ 36,792,071</u>	<u>\$ 33,389,603</u>	<u>\$ 90,740,627</u>	<u>\$ 81,358,363</u>	<u>\$ 9,382,264</u>

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2022**

Table II

	Governmental		Business- Type		Totals		Increase (Decrease)
	2022	2021	2022	2021	2022	2021	
Revenues							
Program Revenues							
Charges for Services	\$ 2,680,856	\$ 3,206,888	\$ 6,093,605	\$ 5,035,806	\$ 8,774,461	\$ 8,242,694	\$ 531,767
Operating Grants and Contributions	1,046,314	940,636	-	-	1,046,314	940,636	105,678
General Revenues							
Property Taxes	5,548,174	4,918,726	-	-	5,548,174	4,918,726	629,448
Non Property Taxes	5,923,531	4,851,253	-	-	5,923,531	4,851,253	1,072,278
Franchise Taxes	673,136	95,355	-	-	673,136	95,355	577,781
Other Revenues	227,270	620,689	-	-	227,270	620,689	(393,419)
Investment Earnings	113,396	13,367	2,184	255	115,580	13,622	101,958
Miscellaneous	1,017,952	362,782	-	802	1,017,952	363,584	654,368
Total Revenues	<u>17,230,629</u>	<u>15,009,696</u>	<u>6,095,789</u>	<u>5,036,863</u>	<u>23,326,418</u>	<u>20,046,559</u>	<u>3,279,859</u>
Expenses							
General Government	3,826,089	3,924,264	-	-	3,826,089	3,924,264	(98,175)
Public safety	5,333,917	4,684,370	-	-	5,333,917	4,684,370	649,547
Public works	575,725	423,860	-	-	575,725	423,860	151,865
Highway and Streets	482,254	424,811	-	-	482,254	424,811	57,443
Health and Welfare	1,875,043						
Culture and Recreation	1,213,693	2,052,994	-	-	1,213,693	2,052,994	(839,301)
Interest on long-term debt	805,855	1,267,405	162,962	171,721	968,817	1,439,126	(470,309)
Utility Services	167,199	626,647	5,326,705	5,224,412	5,493,904	5,851,059	(357,155)
Total Expenses	<u>14,279,775</u>	<u>13,404,351</u>	<u>5,489,667</u>	<u>5,396,133</u>	<u>17,894,399</u>	<u>18,800,484</u>	<u>(906,085)</u>
Increase in net position before transfers	2,950,854	1,605,345	606,122	(359,270)	5,432,019	1,246,075	4,185,944
Transfers	<u>(362,580)</u>	<u>(535,754)</u>	<u>362,580</u>	<u>535,754</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	2,588,274	1,069,591	968,702	176,484	3,556,976	1,246,075	2,310,901
Net Position Beginning	14,558,060	13,936,224	25,971,456	27,785,765	40,529,516	66,500,972	(25,971,456)
Prior Period Adjustment	26,739	(421,016)	-	(1,990,793)	26,739	(2,411,809)	2,438,548
Net Position Ending	<u>\$ 17,173,073</u>	<u>\$ 14,584,799</u>	<u>\$ 26,940,158</u>	<u>\$ 25,971,456</u>	<u>\$ 44,113,231</u>	<u>\$ 40,556,255</u>	<u>\$ 3,556,976</u>

The cost of all governmental activities in the current year was \$14,279,775. However, as shown in Table II, the amount financed by property and non-property taxes were \$5,548,174 and \$5,923,531, respectively. The remaining cost were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2022**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the City had \$68,657,685 (net of depreciation) invested in capital assets, including facilities, land, infrastructure, vehicles, and equipment, as further discussed in Note 2. Capital Assets. This is a decrease of \$656,769, from the previous fiscal year.

Long-Term Debt

By the end of the fiscal year, the City had long-term obligations totaling \$32,137,449 versus \$31,460,766 at the end of last year, an increase of \$676,683. The following is a summary of long-term obligations:

	Governmental		Increase (Decrease)
	2022	2021	
General obligation debt	\$ 16,318,600	\$ 17,819,900	\$ (1,501,300)
Premium on bonds	667,581	715,361	(47,780)
Notes Payable	468,751	593,751	(125,000)
Settlement Payable	5,420,697	5,920,697	(500,000)
Capital Leases	-	230,849	(230,849)
Compensated absences	327,307	294,736	32,571
	\$ 23,202,936	\$ 25,575,294	\$ (2,372,358)

	Business-Type		Increase (Decrease)
	2022	2021	
General obligation debt	\$ 8,686,400	\$ 5,620,100	\$ 3,066,300
Premium on bonds	225,972	242,113	(16,141)
Compensated absences	22,141	23,259	(1,118)
	\$ 8,934,513	\$ 5,885,472	\$ 3,049,041

The City also recognized net pension and OPEB liabilities of \$1,658,772 and \$438,087, respectively.

Fitch ratings has reviewed and assigned an A+ rating to the limited tax bonds and certificates of obligation debt. Additional information on the City of Mercedes' long-term debt can be found in Note 2 Detailed Notes on all Funds F. Long Term Debt of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the budget process for fiscal year 2022-2023, the City Manager, the City Commission and the Staff, analyzed the anticipated needs of the City based on many factors. These factors are drivers and/or indicators of economic growth and include new housing and business developments, job growth, increases in commercial construction, decreases in federal funding, staffing needs, as well as historical revenue and expenditure trends. As a result of those factors, the City increased the tax rate to \$0 for fiscal 2022-2023. Total revenues and other financing sources for the City's General Fund for fiscal year 2022-2023 are budgeted at \$15,281,900, which is an increase of \$2,989,098, over the fiscal year 2021-2022 budget. Expenditures and other financing uses are budgeted at \$15,281,900, which is an increase of \$2,989,098, over the fiscal year 2021-2022 budget. This is attributed to an increase in public works maintenance and non-departmental costs.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Mercedes' finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Director, at City of Mercedes, P.O. Box 837, Mercedes, Texas 78570.

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FINANCIAL STATEMENTS

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City of Mercedes
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

EXHIBIT A-1

Data Control Codes	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Units
ASSETS				
1010 Cash and Cash Equivalents	\$ 11,022,294	\$ 649,236	\$ 11,671,530	\$ 975,698
1011 Restricted Cash and Cash Equivalents	3,842,117	268,683	4,110,800	842,751
1050 Taxes Receivable, Net	571,562	-	571,562	-
1150 Accounts Receivable, Net	2,491,687	850,719	3,342,406	867,533
1260 Due from Other Governments	472,665	-	472,665	-
1300 Due from Other Funds	(30,465)	30,465	-	-
1410 Inventories	44,443	-	44,443	-
Capital Assets:				
1791 Capital Assets Not Being Depreciated	2,508,956	357,093	2,866,049	-
1792 Capital Assets Being Depreciated, Net	31,339,293	34,452,343	65,791,636	-
1989 Note Receivable, Net	248,737	-	248,737	468,750
1990 Other Assets	188,467	-	188,467	3,262,232
1000 Total Assets	<u>52,699,756</u>	<u>36,608,539</u>	<u>89,308,295</u>	<u>6,416,964</u>
DEFERRED OUTFLOWS OF RESOURCES				
1996 Deferred Charge for Refunding	190,561	95,971	286,532	-
1997 Deferred Outflow Related to Pension Plan	925,065	76,092	1,001,157	17,982
1998 Deferred Outflow Related to OPEB	133,174	11,469	144,643	4,196
1500 Total Deferred Outflows of Resources	<u>1,248,800</u>	<u>183,532</u>	<u>1,432,332</u>	<u>22,178</u>
LIABILITIES				
2010 Accounts Payable	787,353	69,313	856,666	8,239
2020 Wages and Salaries Payable	107,308	7,280	114,588	2,251
2030 Compensated Absences Payable	327,307	22,141	349,448	-
2100 Due to Component Unit	631,957	-	631,957	(631,957)
2140 Accrued Interest Payable	112,395	29,030	141,425	11,051
2230 Unearned Revenues	3,835,992	-	3,835,992	-
Noncurrent Liabilities:				
2501 Due Within One Year	1,718,900	1,228,220	2,947,120	1,053,242
Due in More Than One Year:				
2502 Debt Payable - Noncurrent	25,716,728	8,191,272	33,908,000	3,467,895
2580 Net Pension Liability	1,527,244	131,528	1,658,772	48,121
2585 Net OPEB Liability	403,350	34,737	438,087	12,709
2000 Total Liabilities	<u>35,168,534</u>	<u>9,713,521</u>	<u>44,882,055</u>	<u>3,971,551</u>
DEFERRED INFLOWS OF RESOURCES				
2602 Deferred Inflow Related to Pension Plan	1,528,697	131,653	1,660,350	48,166
2603 Deferred Inflow Related to OPEB	78,252	6,739	84,991	2,465
2500 Total Deferred Inflows of Resources	<u>1,606,949</u>	<u>138,392</u>	<u>1,745,341</u>	<u>50,631</u>
NET POSITION				
3200 Net Investment in Capital Assets	6,300,226	25,360,913	31,661,139	-
Restricted:				
3850 Restricted for Capital Acquisition	2,292,606	-	2,292,606	-
3860 Restricted for Debt Service	716,756	-	716,756	-
3870 Restricted for Other Purposes	1,001,795	-	1,001,795	1,722,317
3900 Unrestricted	6,861,690	1,579,245	8,440,935	694,643
3000 Total Net Position	<u>\$ 17,173,073</u>	<u>\$ 26,940,158</u>	<u>\$ 44,113,231</u>	<u>\$ 2,416,960</u>

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

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City of Mercedes
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBITB-1

Data
Control
Codes

	Net (Expense) Revenue and Changes in Net Position					Program Revenues	Component Unit	
						Primary		Government
	Expenses	Charges of Services	Governmental Activities	Business-Type Activities	Total			
Primary Government:								
GOVERNMENTAL ACTIVITIES:								
100 General Government	\$ 3,826,089	\$ 47,260	\$ (3,778,829)	-	\$ (3,778,829)		-	
200 Public Safety	5,333,917	976,315	(4,357,602)	-	(4,357,602)		-	
300 Public Works	575,725	-	(575,725)	-	(575,725)		-	
310 Highways and Streets	482,254	1,646,089	1,163,835	-	1,163,835		-	
400 Health and Welfare	1,875,043	11,192	(1,863,851)	-	(1,863,851)		-	
500 Culture and Recreation	1,213,694	-	(1,213,694)	-	(1,213,694)		-	
720 Interest on Debt	805,855	-	(805,855)	-	(805,855)		-	
790 Other Debt Service	167,199	-	(167,199)	-	(167,199)		-	
Total Governmental Activities:	<u>\$ 14,279,776</u>	<u>\$ 2,680,856</u>	<u>\$ (11,598,920)</u>		<u>\$ (11,598,920)</u>		<u>-</u>	
BUSINESS-TYPE ACTIVITIES:								
701 Water and Sewer Fund	\$ 5,489,667	\$ 6,093,605	-	\$ 603,938	\$ 603,938		-	
Total Business-Type Activities:	<u>\$ 5,489,667</u>	<u>\$ 6,093,605</u>	<u>-</u>	<u>\$ 603,938</u>	<u>\$ 603,938</u>		<u>-</u>	
TOTAL PRIMARY GOVERNMENT:	<u>\$ 19,769,443</u>	<u>\$ 8,774,461</u>	<u>\$ (11,598,920)</u>	<u>\$ 603,938</u>	<u>\$ (10,994,982)</u>		<u>-</u>	
Component Unit:								
991 Component Unit	\$ 1,214,681	-	-	-	-		\$ 1,214,681	
TOTAL COMPONENT UNIT:	<u>\$ 1,214,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>\$ 1,214,681</u>	
General Revenues								
Taxes:								
Property Taxes, Levied for General Purposes			\$ 3,360,919		\$ 3,360,919		\$ -	
Property Taxes, Levied for Debt Service			2,187,255		2,187,255		-	
General Sales and Use Taxes			5,923,531		5,923,531		1,957,184	
Franchise Tax			673,136		673,136		-	
Other Taxes			146,929		146,929		-	
Penalty and Interest on Taxes			80,341		80,341		-	
Grants and Contributions			1,046,314		1,046,314		-	
Miscellaneous Revenue			1,017,952		1,017,952		357,192	
Investment Earnings			113,396	2,185	115,581		31,722	
Transfers In (Out)			(362,579)	362,579	(362,579)		-	
Total General Revenues and Transfers			<u>\$ 14,187,194</u>	<u>\$ 364,764</u>	<u>\$ 14,189,379</u>		<u>\$ 2,346,098</u>	
Change in Net Position								
Net Position - Beginning			2,588,274	968,702	3,556,976		1,131,417	
Prior Adjustment			\$ 14,558,060	\$ 25,971,456	\$ 40,678,831		\$ 1,285,543	
Net Position - Ending			<u>26,739</u>	<u>-</u>	<u>(122,576)</u>		<u>-</u>	
			<u>\$ 17,173,073</u>	<u>\$ 26,940,158</u>	<u>\$ 44,113,231</u>		<u>\$ 2,416,960</u>	

City of Mercedes
BALANCESHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

Data Control Codes	General Fund	American Rescue Plan	Debt Service Fund
ASSETS			
1010 Cash and Cash Equivalents	\$ 3,182,224	\$ -	\$ 288,213
1011 Restricted Cash and Cash Equivalents	1,030,000	2,812,117	427,052
1050 Taxes Receivable	590,140	-	309,950
1051 Allowance for Uncollectible Taxes (credit)	(233,944)	-	(94,584)
1150 Accounts Receivable, Net	2,480,183	-	1,304
1260 Due from Other Governments	185,314	-	-
1300 Due from Other Funds	3,715,506	-	210
1410 Inventories	44,443	-	-
1990 Redevelopment Assets	188,467	-	-
1000 Total Assets	<u>\$ 11,182,333</u>	<u>\$ 2,812,117</u>	<u>\$ 932,145</u>
LIABILITIES			
2010 Accounts Payable	\$ 662,273	\$ 122,156	\$ -
2020 Wages and Salaries Payable	98,394	-	-
2080 Due to Other Funds	967	-	-
2100 Due to Component Unit	631,957	-	-
2230 Unearned Revenues	1,030,000	2,689,961	-
2000 Total Liabilities	<u>2,423,591</u>	<u>2,812,117</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	356,197	-	215,366
2604 Unavailable Revenue - EMS	861,789	-	-
2605 Unavailable Revenue - TIRZ	-	-	-
2600 Total Deferred Inflows of Resources	<u>1,217,986</u>	<u>-</u>	<u>215,366</u>
FUND BALANCES			
3445 Non-Spendable	232,910	-	-
3460 Restricted	1,030,000	-	716,779
3590 Assigned	-	-	-
3600 Unassigned	6,277,846	-	-
3000 Total Fund Balances	<u>7,540,756</u>	<u>-</u>	<u>716,779</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 11,182,333</u>	<u>\$ 2,812,117</u>	<u>\$ 932,145</u>

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

Bond Series 2021	Other Funds	Total Governmental Funds
\$ 5,902,413	\$ 1,222,392	\$ 10,595,242
-	-	4,269,169
-	-	900,090
-	-	(328,528)
-	10,200	2,491,687
-	287,351	472,665
-	-	3,715,716
-	-	44,443
-	-	188,467
<u>\$ 5,902,413</u>	<u>\$ 1,519,943</u>	<u>\$ 22,348,951</u>
\$ 1,401	\$ 1,523	\$ 787,353
-	8,914	107,308
3,690,000	55,214	3,746,181
-	-	631,957
-	116,031	3,835,992
<u>3,691,401</u>	<u>181,682</u>	<u>9,108,791</u>
-	-	571,563
-	-	861,789
-	267,341	267,341
<u>-</u>	<u>267,341</u>	<u>1,700,693</u>
-	-	232,910
2,211,012	1,067,003	5,024,794
-	3,917	3,917
-	-	6,277,846
<u>2,211,012</u>	<u>1,070,920</u>	<u>11,539,467</u>
<u>\$ 5,902,413</u>	<u>\$ 1,519,943</u>	<u>\$ 22,348,951</u>

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City of Mercedes
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2022

Total Fund Balances - Governmental Funds	\$	11,539,467
Amounts reported for governmental activities in the statement of net position are different because:		-0-
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental fund balance sheet. This is the amount of governmental assets, net of accumulated depreciation.		33,848,249
Taxes and EMS receivables that are not available in the current period are reported as deferred inflows of resources in the fund statements. These amounts are recognized as revenue in the government-wide financial statements.		1,700,693
Long-term note receivables used in governmental activities are not available in the current period and not reported in the fund statements.		248,737
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the funds.		(27,762,935)
Interest payable on long-term debt is not accrued in the governmental funds but rather recognized as an expenditure when due.		(112,395)
Deferred outflows of resources related to refunding of bonds in not available for current period expenses and therefore are not reported in the funds.		190,561
Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB Statement No. 68, a deferred resource outflow, and a deferred inflow. This resulted in a decrease in net position.		(2,130,876)
Included in the noncurrent liabilities is the recognition of the City's total OPEB liability required by GASB Statement No. 75, a deferred resource outflow, and a deferred inflow. This resulted in a decrease in net position.		(348,428)
Net Position of Governmental Activities	<u>\$</u>	<u>17,173,073</u>

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

City of Mercedes
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Data Control Codes	General Fund	American Rescue Plan	Debt Service Fund
REVENUES:			
Taxes:			
5110 Property Taxes	\$ 3,359,780	\$ -	\$ 2,191,735
5120 General Sales and Use Taxes	5,923,531	-	-
5170 Franchise Tax	673,136	-	-
5180 Other Taxes	-	-	-
5190 Penalty and Interest on Taxes	56,987	-	23,354
5200 Licenses and Permits	484,829	-	-
5300 Intergovernmental Revenue and Grants	29,922	340,893	-
5400 Charges for Services	2,680,858	-	-
5510 Fines	81,632	-	-
5610 Investment Earnings	41,186	4,821	6,703
5620 Rents and Royalties	13,185	-	-
5700 Other Revenue	203,090	-	-
5020 Total Revenues	<u>13,548,136</u>	<u>345,714</u>	<u>2,221,792</u>
EXPENDITURES:			
Current:			
0100 General Government	2,877,041	-	-
0200 Public Safety	5,025,386	-	-
0300 Public Works	448,348	-	-
0310 Highways and Streets	482,254	-	-
0400 Health and Welfare	1,549,404	120,317	-
0500 Culture and Recreation	1,077,953	-	-
Debt Service:			
0710 Principal on Debt	625,000	-	1,501,301
0720 Interest on Debt	-	-	773,284
Capital Outlay:			
0800 Capital Outlay	68,292	225,597	-
6030 Total Expenditures	<u>12,153,678</u>	<u>345,914</u>	<u>2,274,585</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,394,458</u>	<u>(200)</u>	<u>(52,793)</u>
OTHER FINANCING SOURCES (USES):			
7911 Issuance of Bonds	-	-	-
7912 Sale of Real and Personal Property	31,220	-	-
7915 Transfers In	191,475	-	-
8911 Transfers Out	(64,357)	-	-
7960 Other (Uses)	-	-	-
7080 Total Other Financing Sources (Uses)	<u>158,338</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	1,552,796	(200)	(52,793)
0100 Fund Balance - October 1 (Beginning)	5,943,814	200	745,919
1300 Prior Period Adjustment	44,146	-	23,653
3000 Fund Balance - September 30 (Ending)	<u>\$ 7,540,756</u>	<u>\$ -</u>	<u>\$ 716,779</u>

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

Bond Series 2021	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ 5,551,515
-	-	5,923,531
-	-	673,136
-	146,929	146,929
-	-	80,341
-	165,500	650,329
-	376,878	747,693
-	-	2,680,858
-	-	81,632
52,556	8,130	113,396
-	-	13,185
-	38,494	241,584
<u>52,556</u>	<u>735,931</u>	<u>16,904,129</u>
7,346	288,865	3,173,252
6,596	200,451	5,232,433
-	42,886	491,234
-	-	482,254
-	5,473	1,675,194
-	5,317	1,083,270
139,753	91,096	2,357,150
-	-	773,284
<u>1,582,264</u>	<u>374,800</u>	<u>2,250,953</u>
<u>1,735,959</u>	<u>1,008,888</u>	<u>17,519,024</u>
<u>(1,683,403)</u>	<u>(272,957)</u>	<u>(614,895)</u>
4,560,000	-	4,560,000
-	-	31,220
-	51,826	243,301
(494,219)	(47,304)	(605,880)
(171,366)	-	(171,366)
<u>3,894,415</u>	<u>4,522</u>	<u>4,057,275</u>
2,211,012	(268,435)	3,442,380
-	1,339,355	8,029,288
-	-	67,799
<u>\$ 2,211,012</u>	<u>\$ 1,070,920</u>	<u>\$ 11,539,467</u>

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

Total Net Change in Fund Balances - Governmental Funds	\$	3,442,380
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		410,319
Repayment of notes receivable are recorded as revenue in the fund statements but reduces the notes receivable in the statement of net position.		(56,758)
The change in compensated absences payable during the year is reported as a decrease to expenditures in the statement of net position.		(32,571)
Bond premiums, discounts and deferred charges are recognized in the funds in the year assets are sold, but they are recorded as an asset, deferred outflow of resources or liability and amortized over the life of the bonds in the statement of activities. This amount is the net effect of those differences in the treatment of long-term debt and related items.		36,738
Because some property taxes, grants and notes receivable will not be collected for several months after the city's fiscal year end, they are not considered "available" revenues in the governmental funds. This amount represents the change in unavailable revenue from the prior year.		240,468
Repayment of bond, note, and capital leases payable principal, and settlement are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Conversely, the issuance of long-term liabilities are recorded as other financing sources in the governmental funds, but they are liabilities in the statement of net position.		2,155,071
Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB Statement No. 68, a deferred resource outflow, and a deferred inflow. This resulted in a decrease in net position.		(708,255)
Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB Statement No. 75, a deferred resource outflow, and a deferred inflow. This resulted in a decrease in net position.		36,706
Change in Net Position of Governmental Activities	<u>\$</u>	<u>2,588,274</u>

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

City of Mercedes
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	Business Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 649,236
Restricted Cash and Cash Equivalents	268,683
Accounts Receivable, Net	850,719
Due from Other Funds	3,703,226
Total Current Assets	5,471,864
Noncurrent Assets:	
Capital Assets:	
Capital Assets Not Being Depreciated	357,093
Capital Assets Being Depreciated, Net	34,452,343
Total Noncurrent Assets	34,809,436
Total Assets	40,281,300
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charge for Refunding	95,971
Deferred Outflow Related to Pension Plan	76,092
Deferred Outflow Related to OPEB	11,469
Total Deferred Outflows of Resources	183,532
LIABILITIES	
Current Liabilities:	
Accounts Payable	69,313
Wages and Salaries Payable	7,280
Compensated Absences Payable	22,141
Due to Other Funds	3,672,761
Accrued Interest Payable	29,030
Customer Deposits	507,120
Bonds Payable - Current	721,100
Total Current Liabilities	5,028,745
Noncurrent Liabilities:	
Bonds Payable - Noncurrent	7,965,300
Unamortized Premiums (Discounts) on Bonds	225,972
Net Pension Liability	131,528
Net OPEB Liability	34,737
Total Noncurrent Liabilities	8,357,537
Total Liabilities	13,386,282
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	131,653
Deferred Inflow Related to OPEB	6,739
Total Deferred Inflows of Resources	138,392
NET POSITION	
Net Investment in Capital Assets & Lease Assets	25,360,913
Unrestricted	1,579,245
Total Net Position	\$ 26,940,158

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

City of Mercedes
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBIT D-2

	Business-Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Services	\$ 6,093,605
Total Operating Revenues	6,093,605
OPERATING EXPENSES:	
Other Operating Costs	3,803,520
Depreciation	1,523,185
Debt Service	162,962
Total Operating Expenses	5,489,667
Operating Income	603,938
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	2,184
Total NonOperating Revenue (Expenses)	2,184
Income Before Transfers	606,122
Nonoperating Transfers In	362,580
Change in Net Position	968,702
Total Net Position - October 1 (Beginning)	25,971,456
Total Net Position - September 30 (Ending)	\$ 26,940,158

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

City of Mercedes
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBIT D-3

	Business-Type Activities
<hr/>	
Cash Flows from Operating Activities:	
Cash Received from User Charges	\$ 5,968,942
Cash Payments to Employees for Services	(586,092)
Cash Payments for Suppliers	(4,022,244)
Net Cash Provided by Operating Activities	1,360,606
Cash Flows from Non-Capital Financing Activities:	
Operating Transfer In	362,580
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(297,908)
Reduction of Debt	(623,700)
Interest Paid on Long Term Debt	(153,856)
Net Cash Provided by (Used for) Capital Related Financing Activities	(1,075,464)
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	2,184
Net Increase in Cash and Cash Equivalents	649,906
Cash and Cash Equivalents at Beginning of Year	268,013
Cash and Cash Equivalents at End of Year	\$ 917,919
<hr/>	
Reconciliation of Operating Income of Net Cash Provided	
by Operating Activities:	
Operating Income	\$ 603,938
Adjustments to Reconcile Operating Income to Net Cash Provided	
by Operating Activities:	
Depreciation	1,523,185
Effect of Increases and Decreases in Current Assets of Liabilities:	
Decrease (Increase) in Receivables	(124,664)
Increase (Decrease) in Accounts Payable	(687,287)
Increase (Decrease) in Accrued Interest Payable	9,106
Increase (Decrease) in Customer Deposits	37,446
Increase (Decrease) in Compensated Absences	(1,118)
Net Cash Provided by Operating Activities	\$ 1,360,606
Reconciliation of Total Cash and Cash Equivalents:	
Cash and Cash Equivalents-Statement of Net Assets	\$ 917,919
Non-Cash Investing, Capital and Financing Activities:	
Amortization of Bond Premium	16,141
Amortization of Deferred Charge on Refunding	(7,193)
Change in Deferred Pension Inflow	(29,361)
Change in Deferred Pension Outflow	(12,376)
Change in Net Pension Liability	104,542

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

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NOTES TO FINANCIAL STATEMENTS

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Note 1 - Summary of Significant Accounting Policies

The City of Mercedes, Texas (the “City”) was incorporated in 1909, under the Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a City Commission-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, public works, sanitation, health and welfare, culture and recreation, education, public improvements, planning and zoning, and general administrative services. Other services include utilities such as water, sewer services, and solid waste collection.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-body for establishing governmental accounting and financial reporting principles. The more significant accounting policies used by the City are described below.

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Mercedes, 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.

Discretely presented component unit – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. Discretely presented component units include the following:

Development Corporation of Mercedes – This component unit was organized pursuant to the Development Corporation Act of 1979, as amended by Section 4A and 4B of the act. It was established for the purpose of promoting, assisting, and enhancing economic and industrial development within the City of Mercedes and the State of Texas. The City of Mercedes appoints seven (7) directors to the Corporation’s Board who in turn designate management. The Corporation is authorized to negotiate the issuance of bonds which are payable solely from the revenues of said Corporation. The City is not in any event liable for the payment of any obligations or agreements created or incurred by the Corporation. Financial information is presented separately from the financial information presented for the primary government itself. Separate financial statements can be obtained from the Development Corporation of Mercedes, Executive Director.

Mercedes Industrial Foundation, Inc. – The non-profit corporation acts as an agent or agency empowered to enter into contracts with political subdivisions in Mercedes. Its purpose is to encourage, promote, solicit, and assist new or expanding industries to fully utilize the existing Mercedes Industrial Park or other appropriate business or industrial sites with the approval of the

Note 1 - Summary of Significant Accounting Policies - Continued

governing body. Seven (7) directors are appointed by the City Commission of Mercedes who from office by the governing board, for cause or at will.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Separate financial statements are provided for Governmental Funds and Proprietary Funds, even though the latter are excluded from the government-wide financial statements. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*.

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The City considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Note 1 - Summary of Significant Accounting Policies - Continued

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Basis of Presentation

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate self-balancing set of accounts for its assets, other debits, liabilities, other credits, equity, revenue and expenditures or expenses, as appropriate.

Governmental Funds – Government resources are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund type) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

Enterprise Funds – account for operations (1) that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Major Governmental Funds

The City reports the following major Governmental Funds:

The *General Fund* — the City's primary operating fund. It accounts for all of the general government, except those required to be accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The debt service fund is reported as a major fund.

The *capital projects funds* are used to account for the acquisition or construction of capital assets. The City does not have any major capital projects funds.

Note 1 - Summary of Significant Accounting Policies - Continued

The *special revenue funds* are used to account for the proceeds of specific revenue sources, other than for major capital projects, that are legally restricted to expenditure for specified purposes. The American Rescue Plan fund is reported as a major fund.

Major Proprietary Funds

The *utility fund* accounts for the provision of water and sewer services to the residents of the City and some residents outside of the city.

E. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Water and Sewer (Utility) Fund. The Capital Projects Funds adopt project – length budgets. Formal budgetary integration is employed as a management control device during the year for the General and Debt Service, as well as for the Water and Sewer (Utility) Fund. The American Rescue Plan fund, a major special revenue fund, did not have the City Commission accepted the funds by resolution, but no budgetary action was taken to the timing of the receipt of the funds.

Unused appropriations of the above annual budgets lapse at the end of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. Budgetary data for Capital Project Funds is budgeted over the life of the respective project and not on an annual basis. Therefore, this data is not presented in the accompanying combined financial statements. Revisions that alter total expenditures within a department must be approved by the City Commission. Therefore, legal level of budgetary responsibility is at the departmental level.

City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year. City Management submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating fund includes proposed expenditures and the means of financing them. Public hearings are conducted at City Hall to obtain taxpayer comments. Prior to October 1, the budget is adopted by the City Commission.

Expenditures may not legally exceed budgeted appropriations at the department level. During the year, several supplementary appropriations were necessary.

Note 1 - Summary of Significant Accounting Policies - Continued

F. Compliance and Accountability

Finance-Related Legal and Contractual Provisions

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

The City did not complete its audit of the financial statements within 120 days after year-end as required by its bond covenants.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

i. Cash and Cash Equivalents

The City’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash in all funds, including restricted cash, is pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund’s pooled cash is available upon demand and is considered to be “cash equivalents” when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less are also considered to be “cash equivalents”.

Negative balances incurred in pooled cash at year-end are treated as inter-fund receivables of the General Fund and interfund payables of the deficit fund.

ii. Restricted Assets

Certain assets of the City are classified as restricted assets on the statement of net position because their use is limited by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors, grantors of other governments. Special restricted asset accounts have been established to account for the sources and uses of these limited use assets as follows:

Customer deposit accounts - Deposited in non-interest bearing accounts and refunded upon termination of service with the City and satisfaction of all obligations due.

Bond and capital activities – Includes certain proceeds from issuance of revenue bonds, as well as certain resources set aside for the repayment of bonds or future capital activities.

Note 1 - Summary of Significant Accounting Policies – Continued

iii. Investments

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in the TexPool public fund investment pool (Pool). The Pool meets all of the specified criteria in Section I50: *Investments* to qualify to elect to measure their investments at amortized cost. Accordingly, the fair value of the City's position in the pool is equal to the value of the pooled shares.

iv. Receivables and Payables

Unbilled receivables – An amount for unbilled revenue is recorded in the Water and Sewer (Utility Fund) for services rendered but not yet billed as of the end of the fiscal year. The receivable is derived from the cycle billings generated subsequent to fiscal year end and prorated for usage in September.

Allowance for doubtful accounts - Accounts receivable have been reported net of the allowance for doubtful accounts. Accounts receivable in excess of 365 days are subject to being considered as uncollectible.

v. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of inventories is recorded as expenditures/expenses when consumed rather than when purchased.

vi. Interfund Activities and Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” within the fund financial statements. Long-term borrowings between funds are classified as “advances to other funds” or “advances from other funds” in the fund financial statements. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any residual balance outstanding between the governmental and business-type activities at the end of the fiscal year, which are reported in the government-wide financial statements as internal balances.

Interfund transactions are reflected as services provided, reimbursements, or transfers. Services provided, deemed to be at or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as a reimbursement. All other as transfers. Transfers between governmental or business-type funds are netted as part of the reconciliation to the government-wide presentation.

vii. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial

Note 1 - Summary of Significant Accounting Policies – Continued

statements for proprietary funds. 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 their acquisition value at the date of the 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 operations 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 proprietary fund balance sheets and in both the governmental activities and business-type activities column of the government-wide statement of net position.

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

Improvements	10 - 25 years
Buildings	25 years
Furniture and Equipment	3 - 10 years
Infrastructure	15 - 40 years
Water and Sewer System	15 - 40 years

viii. 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

The City has three (3) items that qualify for reporting as deferred outflows of resources, the *deferred amount on refunding*, the *deferred outflows related to pensions*, and the *deferred outflows related to OPEB*, each reported in the government-wide and proprietary funds statements of net position. The deferred amount on refunding results from debt refinancing, whereby the reacquisition price of the debt instruments exceeds their net carrying amount. The deferred amount on refunding is amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pensions and OPEB are an aggregate of items related to pensions and other post-employment benefits as calculated in accordance with GASB Codification Section P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria*. The deferred outflows related to pensions and OPEB will be recognized as either pension or OPEB expense or a reduction in the net pension liability or OPEB liability in future reporting years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two (2) items that qualify for reporting as deferred inflows of resources. The *deferred inflows related to pensions and OPEB* are an aggregate of items related to pensions and other postemployment benefits as calculated in accordance with GASB Codification Section P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria*. The deferred inflows related to pensions and OPEB will be recognized as a reduction to pension or OPEB expense in future reporting years.

Unavailable revenue, which arises only under a modified accrual basis of accounting, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

ix. Compensated Absences

Accumulated unpaid compensated absences are accrued when incurred in proprietary funds. The liability for governmental funds is recorded only in the governmental activities column of the government-wide financial statements.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in long-term debt. No expenditure is reported for these amounts. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no accrual is recorded for compensated absences that are dependent on the performance of future services

Note 1 - Summary of Significant Accounting Policies – Continued

by employees or when payments are dependent on future events outside the control of the employer and employees. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as “terminal leave” prior to retirement.

x. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds and are recorded as an adjustment to interest expense. Bonds payable are reported net of the applicable bond premium or discount. In accordance with GASB Codification Section I30: *Interest Costs – Imputation*, bond issuance costs are expensed in the period incurred except for prepaid insurance costs. 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.

xi. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City’s Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City’s Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

xii. Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Texas Municipal Retirement System (TMRS) Supplemental Death Benefit has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This measure is used for purposes of measuring the total OPEB liability, deferred outflows of resources related to other postemployment benefits, OPEB expense, and information about assets, liabilities, and additions to/deductions from the applicable OPEB’s fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. Information regarding the City’s total OPEB liability related to the TMRS Supplemental Death Benefit is obtained from TMRS through a report prepared by TMRS consulting actuary, Gabriel Roeder Smith & Company, in

Note 1 - Summary of Significant Accounting Policies - Continued

compliance with Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

xiii. Categories and Classification of Fund Equity

Net position flow assumption – Sometimes the City will 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.

Fund balance flow assumptions – Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental 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 fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies – Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, specifies the following classifications:

Nonspendable fund balance – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City’s highest level of decision-making authority. The City commission is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in

Note 1 - Summary of Significant Accounting Policies - Continued

place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned fund balance – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The governing commission has by resolution authorized the City Manager and the Finance Director to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

Unassigned fund balance – Unassigned fund balance is the residual classification for the General Fund.

xiv. *Revenues and Expenditures/Expenses*

Program revenues – Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property taxes – Property taxes attach as an enforceable lien on property as of January 1st. Property taxes are levied as of October 1st. The county appraisal district certifies the tax roll by July 25th. This tax roll is used by the City to adopt a tax rate by September 1st or soon thereafter. The tax bills are mailed on October 1st or soon thereafter and are due and payable upon receipt. The billings become delinquent as of February 1 of the following calendar year and penalties and interest may be assessed by the City.

Proprietary funds operating and nonoperating revenues and expenses – Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer (Utility) Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

xv. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

Note 1 - Summary of Significant Accounting Policies – Continued

xvi. Recently Issued and Implemented Accounting Pronouncements

- GASB Statement No. 87, Leases – The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The City recognized lease receivables and deferred inflows of resources related to certain lease transactions for which the City is a lessor and included required lease disclosures as a result of implementing this statement.
- GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period – The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.
- GASB Statement No. 93, Interbank offered rates (LIBOR removal and lease modifications) – The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. The requirements of this statement did not apply to the City for the current fiscal year.
- GASB Statement No. 98, The Annual Comprehensive Financial Report – The objective of this Statement is to address references in authoritative literature to the term comprehensive annual financial report.
- GASB Statement No. 99, Omnibus 2022 – The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this statement did not apply to the City for the current fiscal year.

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

- GASB Statement No. 91, *Conduit Debt Obligations* – The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers

Note 1 - Summary of Significant Accounting Policies - Continued

and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Implementation of this Statement is planned for fiscal year 2023.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* – This statement was issued in May 2020 and provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Implementation of this Statement is planned for fiscal year 2023.
- GASB Statement No. 101, *Compensated Absences* – This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. This statement is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

Note 2 – Detail Notes on all Funds

A. Deposits and Investments

It is the City’s policy, as well as a requirement in its depository agreement, for deposits plus accrued interest thereon to be 102% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. As of September 30, 2022, the City’s deposits were covered by the federal deposit insurance or were secured by collateral held by the City’s agent in the City’s name pursuant to the City’s investment policy and its depository agreement.

A reconciliation of cash and investments follows:

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Cash and Cash Equivalents	\$ 10,776,719	\$ 649,236	\$ 11,425,954	\$ 1,398,388
Restricted cash	3,842,117	268,683	4,110,800	567,727
Money Market	245,575	-	245,575	-
	<u>\$ 14,864,411</u>	<u>\$ 917,919</u>	<u>\$ 15,782,329</u>	<u>\$ 1,966,115</u>

Interest Rate Risk

The investment policy states that no investment shall exceed two years in maturity. By limiting the exposure of its investments by less than two years as reflected in the above schedule, the City reduces its risks to the rising interest rates.

Credit Risk

As of September 30, 2022, the investments in Texas CLASS external investment pool was rated AAAM by Moody’s Investor Service and Standards and Poor’s. The City’s investment policy limits authorized investments to certificates of deposits, U.S. Treasuries and federal government agencies, direct obligations of the State of Texas or its agencies, certain fully collateralized direct repurchase agreements, commercial paper – 270 day limit, or any investment allowed under the Public Funds Investment Act with prior approval of the City Commission.

Public Funds Investment Pools

Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), is an investment pool (local government investment pool) for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. Texas CLASS reports its financial statements in accordance with Financial Accounting Standards Board (FASB) and follows ASC 820 “Fair Value Measurement and Disclosure Requirements” in reporting its investments. For pricing and redeeming shares, Texas CLASS maintains a stable net asset value (NAV) of \$1 per share using the fair value method.

Note 2 – Detail Notes on all Funds – Continued

For financial reporting purposes, the City and component units reported amounts for investment pools of \$15,211,641 and \$533,070 respectively, in cash and cash equivalents on the Statement of Net Position as of September 30, 2022. There were no unfunded commitments as of September 30, 2022, and amounts reported in the investment pool had a daily redemption frequency and do not require prior notice for redemption.

B. Receivables

Receivables as of September 30, 2022, consist of the following:

	Primary Government					Business-type Activities	Component Units
	Governmental Funds				Total		
	General Fund	American Rescue Plan	Debt Service Fund	Non-Major Funds		Utility Fund	
Receivables							
Property taxes	\$ 590,140	\$ -	\$ 309,950	\$ -	\$ 900,090	\$ -	\$ -
Sales taxes	1,280,575	-	-	-	1,280,575	-	320,698
Intergovernmental	-	-	-	20,010	20,010	-	-
Ambulance Fees	1,436,316	-	-	-	-	-	-
Trade	-	-	-	-	-	1,085,699	-
Other receivables	209,398	-	1,304	536,228	746,930	-	895,859
Gross receivables	3,516,429	-	311,254	556,238	2,947,605	1,085,699	1,216,557
Less: Allowance for uncollectible	(867,493)	-	(94,584)	(258,686)	-	(220,237)	(28,327)
Net receivables	\$ 2,648,936	\$ -	\$ 216,670	\$ 297,552	\$ 2,947,605	\$ 865,461	\$ 1,188,230

Property tax revenues are recognized when they become available in the fund statements. Available includes those property tax receivables expected to be collected within sixty days after year end.

Included in the amount of intergovernmental receivables in the TIF Fund (included in the non-major funds column above) is a receivable from County of Hidalgo for tax collections generated from the Tax Increment Reinvestment Zone (TIRZ) totaling \$568,457. A discrepancy between the City and County of Hidalgo exists as to the amount due to the City. The City is working with a consultant to assist in resolving this matter. The City has taken a conservative approach and has an allowance for uncollectible balances totaling \$301,116, related to the TIRZ receivable.

As an inducement to expand their business operations, the City and component units accepted notes from various businesses. These notes are for cash loans that carry various interest rates and terms. The interest rates vary by the individual entity and are based on individual credit worthiness. Promissory notes exist for the City for various extensions of cash funds to the component units. These extensions of cash funds are made so the component units could carry out certain capital acquisition activities primarily made for furthering economic objectives.

Note 2 – Detail Notes on all Funds – Continued

Notes receivable as of September 30, 2022, consist of the following:

	<u>Governmental Activities</u>	<u>Component Unit</u>
Promissory Note VIDA	248,737	-
DeleGarza Bakery	-	97,318
MD International (Orb-Galvan)	-	116,501
MD International	-	48,000
MD International (Galvan)	-	115,652
First National Bank (Gomez)	-	16,133
First National Bank (Gomez)	-	25,822
Mario and Martha Castaneda	-	65,641
Reybotic, LLC	-	146,280
Ashley Werbisky	-	7,706
Raquel Moreno	-	4,408
The Grind	-	38,214
Top Gym	-	37,840
Valor Fitness LLC	-	47,269
NTM Ventures LLC	-	85,260
Ashley R. Gonzalez	-	43,815
Total notes receivable	<u>248,737</u>	<u>895,861</u>
Less: Allowance for Uncollectible	<u>-</u>	<u>(28,328)</u>
Total Notes Receivable, net	<u>\$ 248,737</u>	<u>\$ 867,533</u>

The City and component unit maintains an allowance for uncollectible for estimated losses resulting from the failure of individuals to make required payments. The City and component unit review the loans receivable on a periodic basis and make allowances where there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the City and component unit consider many factors, including the age of the balance, the individual's payment history, their current credit-worthiness and current economic trends. As of September 30, 2022, the component unit estimated an allowance for uncollectible loans receivable of \$28,328.

C. Redevelopment Assets

The City and component unit report certain redevelopment assets. At the time of acquisition, these properties were purchased to further economic objectives. These investments must be reported at net realizable value. As of September 30, 2022, the City and component units reported redevelopment assets of \$188,467 and \$3,262,232 respectively.

Note 2 – Detail Notes on all Funds – Continued

D. Capital Assets

Capital asset activity for the year ended September 30, 2022, is as follows:

	<u>Balance 10/1/2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 9/30/2022</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 1,277,932	\$ -	\$ -	\$ 1,277,932
Construction	28,000	1,203,024	-	1,231,024
Total capital assets, not being depreciated	<u>1,305,932</u>	<u>1,203,024</u>	<u>-</u>	<u>2,508,956</u>
Capital assets, being depreciated				
Buildings	14,118,562	-	-	14,118,562
Furniture and equipment	8,316,011	933,048	(116,444)	9,132,615
Improvements	4,433,444	56,532	-	4,489,976
Infrastructure	25,437,606	58,545	-	25,496,151
Total capital assets, being depreciated	<u>52,305,623</u>	<u>1,048,125</u>	<u>(116,444)</u>	<u>53,470,192</u>
Less: accumulated depreciation for	<u>(20,173,822)</u>	<u>(1,840,633)</u>	<u>116,444</u>	<u>(22,130,899)</u>
Total capital assets, being depreciated, net	<u>32,131,801</u>	<u>(792,508)</u>	<u>-</u>	<u>31,339,293</u>
Governmental activities, capital assets, net	<u>\$ 33,437,733</u>	<u>\$ 410,516</u>	<u>\$ -</u>	<u>\$ 33,848,249</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 199,100	\$ 157,993	\$ -	\$ 357,093
Total capital assets, not being depreciated	<u>199,100</u>	<u>157,993</u>	<u>-</u>	<u>357,093</u>
Capital assets, being depreciated				
Furniture and equipment	3,538,331	12,125	(41,488)	3,508,968
Water system	32,346,611	216,044	-	32,562,655
Sewer system	27,935,508	69,737	-	28,005,246
Total capital assets, being depreciated	<u>63,820,450</u>	<u>297,907</u>	<u>(41,488)</u>	<u>64,076,870</u>
Less: accumulated depreciation for	<u>(28,142,830)</u>	<u>(1,523,185)</u>	<u>41,488</u>	<u>(29,624,527)</u>
Total capital assets, being depreciated, net	<u>35,677,620</u>	<u>(1,225,278)</u>	<u>-</u>	<u>34,452,343</u>
Business-type activities, capital assets, net	<u>35,876,720</u>	<u>(1,067,285)</u>	<u>-</u>	<u>34,809,436</u>
Total capital assets, net	<u>\$ 69,314,453</u>	<u>\$ (656,769)</u>	<u>\$ -</u>	<u>\$ 68,657,685</u>

Note 2 – Detail Notes on all Funds – Continued

D. Capital Assets - Continued

For the year ended September 30, 2022, depreciation expense was charged to governmental and business-type activities functions of the primary government as follows:

Governmental Activities	
General Government	\$ 749,397
Public Safety	529,122
Public Works	63,298
Highways and Streets	63,150
Health and welfare	247,479
Culture and Recreation	188,188
Total depreciation - governmental activities	<u>\$ 1,840,634</u>
Business-type Activities	
Water	\$ 818,898
Sewer	704,287
Total depreciation - business-type activities	<u>\$ 1,523,185</u>

Activity for the component units (Mercedes Economic Development Corporation and Mercedes Industrial Foundation) are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, being depreciated				
Furniture and equipment	\$ 11,885			\$ 11,885
Total capital assets, being depreciated	11,885	-	-	11,885
Less: Accumulated depreciation				
Furniture and equipment	11,885	-	-	11,885
Total accumulated depreciation	<u>11,885</u>	<u>-</u>	<u>-</u>	<u>11,885</u>
Capital assets net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

No depreciation was charged to the economic development services function as all capital assets are fully depreciated.

Note 2 – Detail Notes on all Funds – Continued

E. Interfund Receivables and Payables

Inter-fund balances as of September 30, 2022, consisted of the following individual fund receivables and payables:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
Utility Fund	\$ 3,672,761	\$ 757
TIRZ Fund	42,559	-
Hotel Motel	186	-
Debt Service	-	210
Component Unit	<u>78,805</u>	<u>631,957</u>
Total General Fund	3,794,311	632,924
 Utility Fund		
General Fund	757	3,672,761
Capital Projects Funds	<u>3,702,469</u>	-
Total ARPA	3,703,226	3,672,761
 Special Revenue Funds		
General Fund	-	<u>42,745</u>
Total Care's Act Fund	-	42,745
 Debt Service Fund		
General Fund	<u>210</u>	-
Total Crime Control	210	-
 Capital Projects Funds		
Utility Fund	-	<u>3,702,469</u>
Total Crime Control	-	3,702,469
 Component Unit		
General Fund	<u>631,957</u>	<u>78,805</u>
	631,957	78,805
Total	<u>\$ 8,129,704</u>	<u>\$ 8,129,704</u>

On September 30, 2020, the City and the Development Corporation of Mercedes reached an agreement of the amounts they would pay each other by March 2023. The City agreed to pay the Development Corporation of Mercedes \$391,324 and the Development Corporation of Mercedes agreed to pay the City \$78,805. This resulted in a net amount of \$312,519 that the City owes the Development Corporation of Mercedes. Additionally, at September 30, 2022, the City owed Development Corporation of Mercedes \$320,698 for sales taxes for a total amount due to Development Corporation of Mercedes of \$631,957.

Note 2 – Detail Notes on all Funds – Continued

F. Long-Term Liabilities

Primary Government

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for general government activities as well as business-type (proprietary) activities. Certificates of obligation are direct obligations and pledge the full faith and credit of the City. These bonds and certificates generally are used as 25-year serial bonds, with varying amounts of principal maturing each year.

As of September 30, 2022, long-term general obligation debt currently outstanding are as follows:

	Balance 10/1/2021	Increase	Decrease	Balance 9/30/2022	Due in One Year
Governmental Activities					
<i>Bonds</i>					
Series 2013 Public Property Finance Contractual Obligations	\$ 1,175,000	\$ -	\$ (155,000)	\$ 1,020,000	\$ 160,000
Series 2015 Combination Tax and Limited Pledge Revenue C.O.	1,155,000	-	(225,000)	930,000	190,000
Series 2015 Obligation Refunding Bonds	1,870,000	-	(185,000)	1,685,000	225,000
Series 2016 Limited Tax Refunding Bonds	4,629,900	-	(506,300)	4,123,600	527,650
Series 2018 Combination and Limited Pledge	8,990,000	-	(380,000)	8,610,000	395,000
Series 2021 Combination Tax and Limited Pledge		4,560,000	(50,000)	4,510,000	96,250
Total governmental activities	<u>\$ 17,819,900</u>	<u>\$ 4,560,000</u>	<u>\$ (1,501,300)</u>	<u>\$ 20,878,600</u>	<u>\$ 1,593,900</u>
Business-type Activities					
<i>Bonds</i>					
Series 2006 Combination Tax and Subordinated Lien Revenue C.O.	305,000	-	(65,000)	240,000	65,000
Series 2013 Utility System Revenue Bonds	2,135,000	-	(165,000)	1,970,000	165,000
Series 2013 General Obligation Refunding Bonds	220,000	-	(70,000)	150,000	75,000
Series 2016 Limited Tax Refunding Bonds	2,960,100	-	(323,700)	2,636,400	337,350
Series 2021 Combination Tax and Limited Pledge		3,690,000	-	3,690,000	78,750
Total business-type activities	<u>5,620,100</u>	<u>3,690,000</u>	<u>(623,700)</u>	<u>8,686,400</u>	<u>721,100</u>
Component Unit Activities					
<i>Bonds</i>					
Series 2007 sales tax revenue bond	1,440,000	-	(215,000)	1,225,000	225,000
Total Component Unit Activities	<u>1,440,000</u>	<u>-</u>	<u>(215,000)</u>	<u>1,225,000</u>	<u>225,000</u>
Total general obligation debt	<u>\$ 24,880,000</u>	<u>\$ 8,250,000</u>	<u>\$ (2,340,000)</u>	<u>\$ 30,790,000</u>	<u>\$ 2,540,000</u>

Note 2 – Detail Notes on all Funds – Continued

G. Long-Term Liabilities - Continued

Governmental Activities Note Payable

Governmental activities note payable as of September 30, 2022, is as follows:

A note dated March 1, 2016, and payable to the Development Corporation of Mercedes for \$1,000,000. The terms of the note include principal payments of \$10,417, beginning April 2018 continuing monthly thereafter until March 2026, when the entire balance will be due and payable. The note is interest free and not secured.

	\$ 468,750
Total governmental activities note payables	\$ 468,750

Component Unit Notes Payable

A note dated January 5, 2015, and payable to the Office of the Governor Economic Development and Tourism Division for \$1,075,000. The terms of the note include principal and interest payments of \$10,530 beginning March 1, 2015, and continuing regularly thereafter until February 1, 2025, when the entire balance, including principal and interest will be due and payable. The interest rate is fixed at 3.25%. The note is secured by a lien and security interest in sales and use tax.

\$ 299,970

A note dated February 16, 2011, and payable to the USDA for \$750,000. The terms of the note include principal and interest payments of \$30,848, beginning October 2015 and continuing regularly thereafter until October, 2024 when the entire balance, including principal and interest will be due and payable. The interest rate is fixed at 1.00%. The note is secured by funds placed in the IRP revolving fund and various collateral obtained as a result of lending activity.

528,811

A note dated February 17, 2016, and payable to Valley Telephone Cooperative for \$2,000,000. The terms of the note include principal payments of \$20,833 and continuing regularly thereafter until March 2026, when the entire balance will be due and payable. The note is secured by 119 acres owned by the DCM. The notes were used to further economic objectives.

	937,500
Total component unit notes payable	\$ 1,766,282

Note 2 – Detail Notes on all Funds – Continued

G. Long-Term Liabilities - Continued

Governmental Activities and Component Unit Settlement Payable

On November 20, 2018, The City of Mercedes approved Resolution No. 2018-13, which is a resolution established for DCM and the City to pay each a portion of a settlement resulting from a prior year agreement with a developer. The settlement portion for the City and DCM is \$6,587,646 and \$2,195,882, respectively and is expected to be paid within 10 years. As of September 30, 2022, the settlement payable balance for the City and DCM totaled \$5,420,697 and \$1,529,856 respectively.

The annual debt service requirements to maturity for governmental activities long-term debt obligations are as follows:

Year Ending September 30,	Total Bonds Payable		Total Notes Payable		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 1,593,900	\$ 698,116	\$ 125,000	\$ -	\$ 2,292,016	\$ 698,116
2024	1,642,700	646,465	125,000	-	1,767,700	646,465
2025	1,707,600	590,705	125,000	-	1,832,600	590,705
2026	1,761,400	532,710	93,751	-	1,855,151	532,710
2027	1,622,850	471,909	-	-	1,622,850	471,909
2028-2032	7,583,800	1,528,031	-	-	7,583,800	1,528,031
2033-2037	4,256,350	505,590	-	-	4,256,350	505,590
2038-2042	710,000	14,200	-	-	710,000	14,200
	<u>\$ 20,878,600</u>	<u>\$ 4,987,726</u>	<u>\$ 468,751</u>	<u>\$ -</u>	<u>\$ 21,347,351</u>	<u>\$ 4,987,726</u>

The annual debt service requirements to maturity for business-type activities long-term debt obligations are as follows:

Year Ending September 30,	Total Bonds Payable	
	Principal	Interest
2023	\$ 721,100	\$ 226,483
2024	737,300	206,791
2025	687,400	187,058
2026	683,600	167,305
2027	697,150	146,187
2028-2032	4,111,200	404,256
2033-2037	1,048,650	20,960
	<u>\$ 8,686,400</u>	<u>\$ 1,359,040</u>

G. Long-Term Liabilities - Continued

The annual debt service requirements to maturity for component units' long-term debt obligations are as follows:

Year Ending September 30,	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 225,000	\$ 55,738	\$ 384,535	\$ 20,828	\$ 280,738	\$ 76,566
2024	235,000	45,500	402,819	13,790	637,819	59,290
2025	245,000	34,808	331,664	5,751	576,664	40,559
2026	255,000	23,660	213,834	4,514	468,834	28,174
2027	265,000	12,058	26,598	4,250	291,598	16,308
2028-2032	-	-	144,022	10,218	144,022	10,218
2033-2037	-	-	144,022	10,218	144,022	10,218
2038-2042	-	-	118,788	2,903	118,788	2,903
	<u>\$ 1,225,000</u>	<u>\$ 171,764</u>	<u>\$ 1,766,282</u>	<u>\$ 72,473</u>	<u>\$ 2,991,282</u>	<u>\$ 244,237</u>

Changes in Long-Term Debt

During the year ended September 30, 2022, the following changes occurred in liabilities reported in long-term debt:

	Balance 10/1/2021	Increase	Decrease	Balance 9/30/2022	Due in One Year
Governmental Activities					
General obligation debt	\$ 17,819,900	\$ 4,560,000	\$ (1,501,300)	\$ 20,878,600	\$ 1,593,900
Premium on bonds	715,361	-	(47,780)	667,581	-
Notes payable	593,751	-	(125,000)	468,751	125,000
Settlement payable	5,920,697	-	(500,000)	5,420,697	-
Capital leases	230,849	-	(230,849)	-	-
Total governmental activities	<u>\$ 25,280,558</u>	<u>\$ 4,560,000</u>	<u>\$ (2,404,929)</u>	<u>\$ 27,435,629</u>	<u>\$ 1,718,900</u>
Business-type Activities					
General obligation debt	\$ 5,620,100	\$ 3,690,000	\$ (623,700)	\$ 8,686,400	\$ 721,100
Premium on bonds	242,113	-	-	242,113	-
Total business-type activities	<u>\$ 5,862,213</u>	<u>\$ 3,690,000</u>	<u>\$ (623,700)</u>	<u>\$ 8,928,513</u>	<u>\$ 721,100</u>
Component Unit					
Bonds payable	\$ 1,440,000	\$ -	\$ (215,000)	\$ 1,225,000	\$ (225,000)
Notes payable	2,159,471	-	(393,189)	1,766,281	(384,535)
Settlement payable	1,973,563	-	(443,707)	1,529,856	(443,707)
Total Component unit	<u>\$ 5,573,034</u>	<u>\$ -</u>	<u>\$ (1,051,896)</u>	<u>\$ 4,521,137</u>	<u>\$ (1,053,242)</u>

Certain general obligation and revenue bonds contain covenants, which among other things, requires the City to complete its audit within 120 days of the City's fiscal year-end. As of September 30, 2022, the City was not in compliance with this covenant.

Note 3 – Defined Benefit – Pension Plan - TMRS

Plan Description

The City of Mercedes participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with TMRS act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (ACFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefits are calculated as if the sum of the employee’s contributions, with interest, and the city-financing monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

Employees covered by benefit terms

	TMRS
Inactive employees or beneficiaries currently receiving benefits	71
Inactive employees entitled to but no yet receiving benefits	138
Active employees	128
Total participants	346

Contributions

The contribution rates for employees in TMRS is 7% of employee gross earnings, and the City matching percentages is 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the

Note 3 – Defined Benefit – Pension Plan – TMRS - Continued

estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Mercedes were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.94% and 15.79% in calendar year 2021 and 2022 respectively. The City’s contributions to TMRS for the year ended September 30, 2022, were \$876,640 and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability was measured as of December 31, 2021, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Schedule of Actuarial Assumptions

Valuation Date	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	14 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increase	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality Assumption	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(1) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

For the purpose of this valuation, the expected rate of return on pension plan investments is 6.75%; the municipal bond rate is 1.84% (based on the daily rate closest to but not later than the measurement date of the Fidelity 20-Year Municipal GO AA Index). A single discount rate of 6.75% was used to measure the total pension liability as of December 31, 2021. This single discount rate was based on the expected rate of return on pension plan investments of 6.75%. Based on the stated assumptions and the projection of cash flows, the City’s fiduciary net position and future contributions were sufficient to finance the future benefit payments of the current plan members for all projection years. Therefore, the long-term expected rate of return on pension plan

Note 3 – Defined Benefit – Pension Plan – TMRS - Continued

investments was applied to all periods of the projected benefit payments to determine the total pension liability for the City. The projection of cash flows used to determine the single discount rate for the City assumed that the funding policy adopted by the TMRS Board will remain in effect for all future years. Under this funding policy, the City will finance the unfunded actuarial accrued liability over the years remaining for the closed period existing for each base in addition to the employer portion of all future benefit accruals (i.e. the employer normal cost).

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute Based on that assumption, the pension plan’s Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/20	\$ 23,700,155	\$ 20,985,186	\$ 2,714,969
Changes for the year:			
Service cost	924,643		924,643
Interest	1,587,158		1,587,158
Change in benefit terms	-		-
Diff between expected/actual experience	418,406		418,406
Changes of assumptions	-		-
Contributions - employer		879,935	(879,935)
Contributions - employee		368,174	(368,174)
Net investment income		2,737,517	(2,737,517)
Benefit payments, including refunds of employee contributions	(1,298,057)	(1,298,057)	-
Administrative expenses		(12,658)	12,658
Other charges		87	(87)
Net changes	1,632,150	2,674,998	(1,042,848)
Balance at 12/31/21	\$ 25,332,305	\$ 23,660,184	\$ 1,672,121

Net pension liability allocation:

City of Mercedes	97.1%	\$	1,624,000
Development Corporation of Mercedes	2.9%	\$	48,121

Note 3 – Defined Benefit – Pension Plan – TMRS - Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City’s net pension liability would have been if it were calculated using a discount rate that is 1 percentage lower (5.75%) or 1 percentage higher (7.75%) that the current rate.

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 5,276,670	\$ 1,672,121	\$ (1,254,849)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions

For the year ended September 30, 2022, the City recognized pension expense in the amount of \$72,087.

At September 30, 2022 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 309,446	\$ 257,332
Changes in actuarial assumptions	\$ 25,131	\$ -
Differences between projected and actual investment earnings (net of current year amortization)	\$ -	\$ 1,416,380
Contributions subsequent to the measurement date	632,786	
Total	\$ 967,363	\$ 1,673,712

\$632,782 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions expense as follows:

Note 3 – Defined Benefit – Pension Plan – TMRS - Continued

Fiscal Year Ending September 30,	
2023	\$ (320,476)
2024	\$ (546,347)
2025	\$ (208,109)
2026	\$ (264,203)
2027	\$ -
Thereafter	\$ -

Note 4 – Other Post Employment Benefits

Plan Description

The City also participates in a single-employer, defined benefit group-term life insurance known as the Supplemental Death Benefits Fund (SDBF) administered by the Texas Municipal Retirement System (TMRS). This is a voluntary program in which the City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post employment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Employees Covered by Benefit Terms

	TMRS
Inactive employees or beneficiaries currently receiving benefits	58
Inactive employees entitled to but no yet receiving benefits	11
Active employees	128
Total participants	197

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Note 4 – Other Post Employment Benefits - Continued

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount rate*	1.84%
Retirees' share of benefit related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under requirements of GASB no. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

Total OPEB Liability

Employees for the City of Mercedes were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.94% and 15.79% in calendar 2021 and 2022 respectively. The City's contributions to TMRS for year ended September 30, 2022 were \$11,840, and were equal to the required Contributions.

Note 4 – Other Post Employment Benefits - Continued

	Increase (Decrease)
	Total OPEB Liability (a)
Balance at 12/31/20	\$ 409,958
Changes for the year:	
Service cost	22,616
Interest	8,357
Change in benefit terms	-
Diff between expected/actual experience	(6,176)
Changes of assumptions	13,696
Contributions - employer	
Contributions - employee	
Net investment income	
Benefit payments, including refunds of employee contributions	(6,838)
Administrative expenses	
Other charges	
Net changes	31,655
Balance at 12/31/21	\$ 441,613

Net OPEB allocation:

<u>City of Mercedes</u>	<u>97.1%</u>	<u>\$ 428,904</u>
<u>Development Corporation of Mercedes</u>	<u>2.9%</u>	<u>\$ 12,709</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount rate

The following presents the total OPEB liability of the City, Calculated using the discount rate of 1.84%, as well as what the City’s total OPEB liability would have been if it were calculated using a discount rate that is 1 percentage point lower (0.84) or 1 Percentage higher (2.84) than the current rate.

	1% Decrease in Discount Rate (0.84%)	Discount Rate (1.84%)	1% Increase in Discount Rate (2.84%)
City's total OPEB liability	\$ 540,054	\$ 441,613	\$ 365,159

Note 4 – Other Post Employment Benefits - Continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

For the year ended September 30, 2022 the City recognized OPEB expense in the amount of \$48,377.

At September 30, 2022 the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 55,972	\$ 78,776
Changes in actuarial assumptions	\$ 81,018	\$ 6,899
Differences between projected and actual investment earnings (net of current year amortization)	\$ -	\$ -
Contributions subsequent to the measurement date	8,817	
Total	\$ 145,807	\$ 85,675

\$8,817 of deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Fiscal Year Ending September 30,	
2023	\$17,404
2024	\$15,747
2025	\$ 5,891
2026	\$ 7,311
2027	\$ 4,756
Thereafter	\$ 206

Note 5 – Transfers

Transfers as of September 30, 2022, consisted of the following:

Governmental Activities:	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 191,475	\$ 64,357
Special Revenue Fund	14,156	-
Local Forfeiture	6,907	-
Hotel/Motel Fund	186	-
Emergency Management Fund	577	-
Mile 1 Project	30,000	-
Series 2018	-	47,118
Series 2021	-	494,219
Library	-	186
Total governmental fund transfers	<u>243,300</u>	<u>605,879</u>
Business-type Activities:		
Utility Fund	<u>362,579</u>	-
Total business-type transfers	<u>362,579</u>	-
Total interfund transfers	<u><u>\$ 605,879</u></u>	<u><u>\$ 605,879</u></u>

Note 6 – Commitments and Contingencies

Grants

The City participates in a number of grant programs funded by State and Federal Agencies. These programs are subject to compliance by the grantor agencies or their representatives. Audit of all these programs included in the year ended September 30, 2022, have been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Litigation

The City is involved in litigation claims against it from time to time 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 for these contingent liabilities. As of September 30, 2022, the City was a defendant in various lawsuits as to which the ultimate resolution and possibility of any unfavorable outcome is not yet determinable. At the present time, the City does not anticipate any material losses as a result of these lawsuits.

Note 6 – Commitments and Contingencies - Continued

Economic Incentive Commitments

The Development Corporation of Mercedes extended economic incentives to the following entities as follows as of September 3, 2022:

<i>Incentives</i>	Commitment	Paid Previous Years	Paid in Current Year	Balance Due
Knapp Medical Center	\$ 750,000	\$ 675,000	\$ 75,000	\$ -
OA Mercedes Health Realty	590,000	531,000	59,000	\$ -
Rio Grande Livestock Show	300,000	175,000	25,000	\$ 100,000
Raybecc Ohio Street LLC	200,000	150,000	50,000	\$ -
Texas Rio Grande Legal Aid	330,000	305,000	25,000	\$ -
Bert Ogden	300,000	-	-	\$ 300,000
La Herencia	200,000	66,000	66,000	\$ 68,000
Orchard Grove Apartments	450,000	250,000	50,000	\$ 150,000
	<u>\$ 3,120,000</u>	<u>\$ 2,152,000</u>	<u>\$ 350,000</u>	<u>\$ 618,000</u>

Note 7 – Risk Management

The City of Mercedes 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, and medical claims by employees; job-related 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. The City is member of an intergovernmental risk pool.

The risk pool is an interlocal non-assessable agency with present unreserved resources in excess of \$357,000,000 (as of September 30, 2022, the most recently audited financial statements completed for the risk pool). Reinsurance is provided by several A- and above rated companies in amounts ranging from \$10,000,000 to 275,000,000 depending on the type of insurance coverage. City management is not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

City of Mercedes, Texas
Notes to the Basic Financial Statements

Note 8 – Fund Balances

Fund balances as of September, 2022, were as follows:

	General Fund	Bond Series 2021	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Fund Balance					
Nonspendable					
Inventory	\$ 44,443	\$ -	\$ -	\$ -	\$ 44,443
Redevelopment Assets	188,467	-	-	-	188,467
Total nonspendable	<u>232,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>232,910</u>
Restricted					
General Fund	1,030,000	-	-	-	1,030,000
Special Revenue Fund	-	-	-	401	401
Debt service fund	-	-	716,779	-	716,779
Municipal court technology fund	-	-	-	141,504	141,504
Local forfeiture fund	-	-	-	34,215	34,215
Keep Mercedes Beautiful fund	-	-	-	1,678	1,678
Hotel/Motel fund	-	-	-	603,977	603,977
TIF fund	-	-	-	47,421	47,421
Recreation program fund	-	-	-	3,182	3,182
Parks Fund	-	-	-	165,500	165,500
Capital Projects P.P.F.C.O. 2013 Series	-	-	-	3,501	3,501
Capital Projects Series 2015 C.O.	-	-	-	2,439	2,439
Capital Projects Series 2018 Bond	-	-	-	61,635	61,635
Capital Projects Series 2021 Bond	-	2,211,012	-	-	2,211,012
Streets - Right of way	-	-	-	1,550	1,550
Total restricted	<u>1,030,000</u>	<u>2,211,012</u>	<u>716,779</u>	<u>1,067,003</u>	<u>5,024,794</u>
Assigned					
Library Fund	-	-	-	3,917	3,917
Total Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,917</u>	<u>3,917</u>
Unassigned					
General fund	<u>6,277,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,277,846</u>
Total Unassigned	<u>6,277,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,277,846</u>
Total Fund Balance	<u>\$ 7,540,756</u>	<u>\$ 2,211,012</u>	<u>\$ 716,779</u>	<u>\$ 1,070,920</u>	<u>\$ 11,539,467</u>

Note 9 – Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, February 15, 2023, and the determined there were no other events other than the one listed above that would require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Mercedes
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 3,034,643	\$ 3,034,643	\$ 3,359,780	\$ 325,137
5120	General Sales and Use Taxes	4,828,000	4,828,000	5,923,531	1,095,531
5170	Franchise Tax	600,000	600,000	673,136	73,136
5190	Penalty and Interest on Taxes	90,000	90,000	56,987	(33,013)
5200	Licenses and Permits	167,500	167,500	484,829	317,329
5300	Intergovernmental Revenue and Grants	18,100	18,100	29,922	11,822
5400	Charges for Services	2,038,000	2,038,000	2,680,858	642,858
5510	Fines	67,000	67,000	81,632	14,632
5610	Investment Earnings	30,000	30,000	41,186	11,186
5620	Rents and Royalties	13,000	13,000	13,185	185
5700	Other Revenue	191,560	191,560	203,090	11,530
5020	Total Revenues	<u>11,077,803</u>	<u>11,077,803</u>	<u>13,548,136</u>	<u>2,470,333</u>
EXPENDITURES:					
Current:					
0100	General Government	2,904,070	2,904,070	2,877,041	27,029
0200	Public Safety	5,036,450	5,036,450	5,025,386	11,064
0300	Public Works	450,173	450,173	448,348	1,825
0310	Highways and Streets	489,501	489,501	482,254	7,247
0400	Health and Welfare	1,558,577	1,558,577	1,549,404	9,173
0500	Culture and Recreation	1,089,039	1,089,039	1,077,953	11,086
Debt Service:					
0710	Principal on Debt	741,993	741,993	625,000	116,993
Capital Outlay:					
0800	Capital Outlay	23,000	23,000	68,292	(45,292)
6030	Total Expenditures	<u>12,292,803</u>	<u>12,292,803</u>	<u>12,153,678</u>	<u>139,125</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,215,000)</u>	<u>(1,215,000)</u>	<u>1,394,458</u>	<u>2,609,458</u>
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	5,000	5,000	31,220	26,220
7915	Transfers In	1,010,000	1,010,000	191,475	(818,525)
8911	Transfers Out	(64,357)	(64,357)	(64,357)	-
7080	Total Other Financing Sources (Uses)	<u>950,643</u>	<u>950,643</u>	<u>158,338</u>	<u>(792,305)</u>
1200	Net Change	(264,357)	(264,357)	1,552,796	1,817,153
0100	Fund Balance - October 1 (Beginning)	5,943,814	5,943,814	5,943,814	-
1300	Prior Period Adjustment	-	-	44,146	44,146
3000	Fund Balance - September 30 (Ending)	<u>\$ 5,679,457</u>	<u>\$ 5,679,457</u>	<u>\$ 7,540,756</u>	<u>\$ 1,861,299</u>

CITY OF MERCEDES
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Plan Year Ended December 31,						
	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability							
Service cost	\$ 924,643	\$ 931,185	\$ 814,509	\$ 723,965	\$ 712,113	\$ 740,529	\$ 753,182
Interest (on the total pension liability)	1,587,158	1,522,121	1,487,612	1,447,569	1,398,746	1,332,821	1,296,517
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	418,406	(209,134)	(490,403)	(398,692)	(478,060)	(236,560)	(421,205)
Change of assumptions	-	-	96,939	-	-	-	193,616
Benefit payments, including refunds of employee contributions	(1,298,057)	(1,256,720)	(1,654,784)	(794,999)	(1,035,847)	(655,971)	(527,954)
Net Change in Total Pension Liability	1,632,150	987,452	253,873	977,843	596,952	1,180,819	1,294,156
Total Pension Liability - Beginning	23,700,155	22,712,703	22,458,830	21,480,987	20,884,035	19,703,216	18,409,060
Total Pension Liability - Ending (a)	<u>\$ 25,332,305</u>	<u>\$ 23,700,155</u>	<u>\$ 22,712,703</u>	<u>\$ 22,458,830</u>	<u>\$ 21,480,987</u>	<u>\$ 20,884,035</u>	<u>\$ 19,703,216</u>
Plan Fiduciary Net Position							
Contributions - employer	\$ 879,935	\$ 959,839	\$ 827,756	\$ 766,842	\$ 783,036	\$ 789,320	\$ 847,433
Contributions - employee	368,174	371,413	319,774	288,596	286,977	289,431	301,273
Net investment income	2,737,517	1,476,699	2,675,917	(526,655)	2,135,982	950,023	19,805
Benefit payments, including refunds of employee contributions	(1,298,057)	(1,256,720)	(1,654,784)	(794,999)	(1,035,847)	(655,971)	(527,954)
Administrative expense	(12,658)	(9,550)	(15,104)	(10,170)	(11,068)	(10,722)	(12,061)
Other	87	(373)	(454)	(531)	(561)	(578)	(596)
Net Change in Plan Fiduciary Net Position	2,674,998	1,541,308	2,153,105	(276,917)	2,158,519	1,361,503	627,900
Plan Fiduciary Net Position - Beginning	20,985,186	19,443,877	17,290,773	17,567,690	15,409,172	14,047,669	13,419,769
Plan Fiduciary Net Position - Ending (b)	<u>\$ 23,660,184</u>	<u>\$ 20,985,185</u>	<u>\$ 19,443,878</u>	<u>\$ 17,290,773</u>	<u>\$ 17,567,691</u>	<u>\$ 15,409,172</u>	<u>\$ 14,047,669</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 1,672,121</u>	<u>\$ 2,714,970</u>	<u>\$ 3,268,825</u>	<u>\$ 5,168,057</u>	<u>\$ 3,913,296</u>	<u>\$ 5,474,863</u>	<u>\$ 5,655,547</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	93.40%	88.54%	85.61%	76.99%	81.78%	73.78%	71.30%
Covered Payroll	\$ 5,259,629	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806	\$ 4,099,672	\$ 4,134,721	\$ 4,303,896
Net Pension Liability as a Percentage of Covered Payroll	31.79%	51.17%	71.56%	125.35%	95.45%	132.41%	131.41%

CITY OF MERCEDES
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Fiscal Year Ended September 30,							
	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 876,640	\$ 959,839	\$ 933,895	\$ 809,721	\$ 783,036	\$ 795,685	\$ 810,771	\$ 810,771
Contributions in relation to actuarially determined contribution	<u>(876,640)</u>	<u>(959,839)</u>	<u>(933,895)</u>	<u>(809,721)</u>	<u>(783,036)</u>	<u>(795,685)</u>	<u>(810,771)</u>	<u>(810,771)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,447,028	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806	\$ 4,099,672	\$ 4,134,721	\$ 4,303,896	\$ 4,303,896
Contributions as a percentage of covered payroll	16.09%	18.09%	20.44%	19.64%	19.10%	19.24%	18.84%	18.84%

CITY OF MERCEDES
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	14 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(1) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information: There were no benefit changes during the year.

CITY OF MERCEDES
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Plan Year Ended December 31,				
	2021	2020	2019	2018	2017
Total OPEB Liability					
Service cost	\$ 22,616	\$ 20,162	\$ 14,161	\$ 14,018	\$ 11,889
Interest (on the total OPEB liability)	8,357	8,866	14,145	8,541	8,257
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(6,176)	14,641	(139,319)	120,401	-
Change of assumptions	13,696	55,292	51,382	(18,067)	20,239
Benefit payments, including refunds of employee contributions	(6,838)	(2,653)	(1,827)	(1,649)	(2,050)
Net Change in Total OPEB Liability	<u>31,655</u>	<u>96,308</u>	<u>(61,458)</u>	<u>123,244</u>	<u>38,335</u>
Total OPEB Liability - Beginning	<u>409,958</u>	<u>313,644</u>	<u>375,102</u>	<u>251,858</u>	<u>213,523</u>
Total OPEB Liability - Ending	<u><u>\$ 441,613</u></u>	<u><u>\$ 409,952</u></u>	<u><u>\$ 313,644</u></u>	<u><u>\$ 375,102</u></u>	<u><u>\$ 251,858</u></u>
 Covered Payroll	 \$ 5,259,629	 \$ 5,305,900	 \$ 4,568,193	 \$ 4,122,806	 \$ 4,099,672
 Total OPEB Liability as a Percentage of Covered Payroll	 8.40%	 7.73%	 6.87%	 9.10%	 6.14%

CITY OF MERCEDES
 NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Valuation Date: Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	N/A
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	N/A
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	2.00%
Retirement Age	N/A
Mortality	Service retirees: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Disabled retirees: 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Other Information: There were no benefit changes during the year.

CITY OF MERCEDES, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2022

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and the Water and Sewer (Utility) Fund. The capital project funds adopt project length budgets. Formal budgetary integration is employed as a management control device during the year for the General and Debt Service, as well as for the Water and Sewer Funds. The American Rescue Plan fund, a major special revenue fund, did not have legally adopted budget. The City Commission accepted the funds by resolution, but no budgetary action was taken due to the timing of the receipt of the funds.

Unused appropriations of the above annually budgeted amounts lapse at the end of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Budgetary data for Capital Project Funds is budgeted over the life of the respective project and not on an annual basis. Therefore, this data is not presented in the accompanying combined financial statements.

Revisions that alter total expenditures within a department must be approved by the City Commission. Therefore, the legal level of budgetary responsibility is at the departmental level.

City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year. City Management submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating fund includes proposed expenditures and the means of financing them. Public hearings are conducted at City Hall to obtain taxpayer comments. Prior to October 1, the budget is adapted by the City Commission.

Expenditures may not legally exceed budgeted appropriations at the departmental level. During the year, several supplementary appropriations were necessary.

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OTHER SUPPLEMENTARY INFORMATION

City of Mercedes
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2022

Data Control Codes	200	201	202	203
	Municipal Technology	Urban County	Library	Special Revenue
ASSETS				
1010 Cash and Cash Equivalents	\$ 141,610	\$ -	\$ 3,917	\$ 106,753
1150 Accounts Receivable, Net	-	-	-	-
1260 Due from Other Governments	-	-	-	20,010
1000 Total Assets	<u>\$ 141,610</u>	<u>\$ -</u>	<u>\$ 3,917</u>	<u>\$ 126,763</u>
LIABILITIES				
2010 Accounts Payable	\$ 106	\$ -	\$ -	\$ 1,417
2020 Wages and Salaries Payable	-	-	-	8,914
2080 Due to Other Funds	-	-	-	-
2230 Unearned Revenues	-	-	-	116,031
2000 Total Liabilities	<u>106</u>	<u>-</u>	<u>-</u>	<u>126,362</u>
DEFERRED INFLOWS OF RESOURCES				
2605 Unavailable Revenue - TIRZ	-	-	-	-
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
3460 Restricted	141,504	-	-	401
Assigned Fund Balance:				
3590 Assigned	-	-	3,917	-
3000 Total Fund Balances	<u>141,504</u>	<u>-</u>	<u>3,917</u>	<u>401</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 141,610</u>	<u>\$ -</u>	<u>\$ 3,917</u>	<u>\$ 126,763</u>

204	205	206	207	208	210	214	Total Nonmajor Special Revenue Funds
Local Forfeiture	Keep Mercedes Beautiful	Hotel/Motel	TIRZ	Recreation Program	Emergency Management	Parks Fund	
\$ 34,215	\$ 1,678	\$ 593,963	\$ 89,980	\$ 3,182	\$ -	\$ 165,500	\$ 1,140,798
-	-	10,200	-	-	-	-	10,200
-	-	-	267,341	-	-	-	287,351
<u>\$ 34,215</u>	<u>\$ 1,678</u>	<u>\$ 604,163</u>	<u>\$ 357,321</u>	<u>\$ 3,182</u>	<u>\$ -</u>	<u>\$ 165,500</u>	<u>\$ 1,438,349</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,523
-	-	-	-	-	-	-	8,914
-	-	186	42,559	-	-	-	42,745
-	-	-	-	-	-	-	116,031
<u>-</u>	<u>-</u>	<u>186</u>	<u>42,559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,213</u>
-	-	-	267,341	-	-	-	267,341
-	-	-	267,341	-	-	-	267,341
34,215	1,678	603,977	47,421	3,182	-	165,500	997,878
-	-	-	-	-	-	-	3,917
<u>34,215</u>	<u>1,678</u>	<u>603,977</u>	<u>47,421</u>	<u>3,182</u>	<u>-</u>	<u>165,500</u>	<u>1,001,795</u>
<u>\$ 34,215</u>	<u>\$ 1,678</u>	<u>\$ 604,163</u>	<u>\$ 357,321</u>	<u>\$ 3,182</u>	<u>\$ -</u>	<u>\$ 165,500</u>	<u>\$ 1,438,349</u>

City of Mercedes
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2022

Data	600	601	603	605
Control Codes	PPFCO Series 2015	Series 2015	Series 2018	Street Maintenance
ASSETS				
1010 Cash and Cash Equivalents	\$ 3,501	\$ 2,439	\$ 74,104	\$ 1,550
1150 Accounts Receivable, Net	-	-	-	-
1260 Due from Other Governments	-	-	-	-
1000 Total Assets	<u>\$ 3,501</u>	<u>\$ 2,439</u>	<u>\$ 74,104</u>	<u>\$ 1,550</u>
LIABILITIES				
2010 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2020 Wages and Salaries Payable	-	-	-	-
2080 Due to Other Funds	-	-	12,469	-
2230 Unearned Revenues	-	-	-	-
2000 Total Liabilities	<u>-</u>	<u>-</u>	<u>12,469</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
2605 Unavailable Revenue - TIRZ	-	-	-	-
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
3460 Restricted	3,501	2,439	61,635	1,550
Assigned Fund Balance:				
3590 Assigned	-	-	-	-
3000 Total Fund Balances	<u>3,501</u>	<u>2,439</u>	<u>61,635</u>	<u>1,550</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,501</u>	<u>\$ 2,439</u>	<u>\$ 74,104</u>	<u>\$ 1,550</u>

606 Mile 1 Project	607 6 Acre	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 1,222,392
-	-	10,200
-	-	287,351
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,519,943</u>
\$ -	\$ -	\$ 1,523
-	-	8,914
-	-	55,214
-	-	116,031
<u>-</u>	<u>-</u>	<u>181,682</u>
-	-	267,341
<u>-</u>	<u>-</u>	<u>267,341</u>
-	-	1,067,003
-	-	3,917
<u>-</u>	<u>-</u>	<u>1,070,920</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,519,943</u>

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

Data Control Codes	200	201	202	203
	Municipal Technology	Urban County	Library	Special Revenue
REVENUES:				
Taxes:				
5180 Other Taxes	\$ -	\$ -	\$ -	\$ -
5200 Licenses and Permits	-	-	-	-
5300 Intergovernmental Revenue and Grants	-	113,176	-	263,702
5610 Investment Earnings	1,085	-	-	-
5700 Other Revenue	12,187	-	2,414	-
5020 Total Revenues	<u>13,272</u>	<u>113,176</u>	<u>2,414</u>	<u>263,702</u>
EXPENDITURES:				
Current:				
0100 General Government	3,451	113,176	-	-
0200 Public Safety	-	-	-	200,451
0300 Public Works	-	-	-	-
0400 Health and Welfare	-	-	-	-
0500 Culture and Recreation	-	-	5,317	-
Debt Service:				
0710 Principal on Debt	-	-	-	-
Capital Outlay:				
0800 Capital Outlay	-	-	-	77,006
6030 Total Expenditures	<u>3,451</u>	<u>113,176</u>	<u>5,317</u>	<u>277,457</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,821</u>	<u>-</u>	<u>(2,903)</u>	<u>(13,755)</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	14,156
8911 Transfers Out	-	-	(186)	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(186)</u>	<u>14,156</u>
1200 Net Change in Fund Balance	9,821	-	(3,089)	401
0100 Fund Balance - October 1 (Beginning)	<u>131,683</u>	<u>-</u>	<u>7,006</u>	<u>-</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 141,504</u>	<u>\$ -</u>	<u>\$ 3,917</u>	<u>\$ 401</u>

204	205	206	207	208	210	214	Total Nonmajor Special Revenue Funds
Local Forfeiture	Keep Mercedes Beautiful	Hotel/Motel	TIRZ	Recreation Program	Emergency Management	Parks Fund	
\$ -	\$ -	\$ 146,929	\$ -	\$ -	\$ -	\$ -	\$ 146,929
-	-	-	-	-	-	165,500	165,500
-	-	-	-	-	-	-	376,878
5	-	4,935	-	-	-	-	6,025
21,773	-	1,428	-	-	-	-	37,802
<u>21,778</u>	<u>-</u>	<u>153,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>165,500</u>	<u>733,134</u>
-	-	172,238	-	-	-	-	288,865
-	-	-	-	-	-	-	200,451
-	-	-	-	-	-	-	-
-	5,473	-	-	-	-	-	5,473
-	-	-	-	-	-	-	5,317
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	77,006
-	5,473	172,238	-	-	-	-	577,112
<u>21,778</u>	<u>(5,473)</u>	<u>(18,946)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>165,500</u>	<u>156,022</u>
6,907	-	186	-	-	577	-	21,826
-	-	-	-	-	-	-	(186)
<u>6,907</u>	<u>-</u>	<u>186</u>	<u>-</u>	<u>-</u>	<u>577</u>	<u>-</u>	<u>21,640</u>
28,685	(5,473)	(18,760)	-	-	577	165,500	177,662
<u>5,530</u>	<u>7,151</u>	<u>622,737</u>	<u>47,421</u>	<u>3,182</u>	<u>(577)</u>	<u>-</u>	<u>824,133</u>
<u>\$ 34,215</u>	<u>\$ 1,678</u>	<u>\$ 603,977</u>	<u>\$ 47,421</u>	<u>\$ 3,182</u>	<u>\$ -</u>	<u>\$ 165,500</u>	<u>\$ 1,001,795</u>

City of Mercedes
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Data Control Codes	600	601	603	605
	PPFCO Series 2015	Series 2015	Series 2018	Street Maintenance
REVENUES:				
Taxes:				
5180 Other Taxes	\$ -	\$ -	\$ -	\$ -
5200 Licenses and Permits	-	-	-	-
5300 Intergovernmental Revenue and Grants	-	-	-	-
5610 Investment Earnings	28	-	2,077	-
5700 Other Revenue	-	-	-	692
5020 Total Revenues	<u>28</u>	<u>-</u>	<u>2,077</u>	<u>692</u>
EXPENDITURES:				
Current:				
0100 General Government	-	-	-	-
0200 Public Safety	-	-	-	-
0300 Public Works	-	-	42,886	-
0400 Health and Welfare	-	-	-	-
0500 Culture and Recreation	-	-	-	-
Debt Service:				
0710 Principal on Debt	-	-	91,096	-
Capital Outlay:				
0800 Capital Outlay	-	-	297,794	-
6030 Total Expenditures	<u>-</u>	<u>-</u>	<u>431,776</u>	<u>-</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>28</u>	<u>-</u>	<u>(429,699)</u>	<u>692</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
8911 Transfers Out	-	-	(47,118)	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(47,118)</u>	<u>-</u>
1200 Net Change in Fund Balance	28	-	(476,817)	692
0100 Fund Balance - October 1 (Beginning)	<u>3,473</u>	<u>2,439</u>	<u>538,452</u>	<u>858</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 3,501</u>	<u>\$ 2,439</u>	<u>\$ 61,635</u>	<u>\$ 1,550</u>

606 Mile 1 Project	607 6 Acre	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 146,929
-	-	165,500
-	-	376,878
-	-	8,130
-	-	38,494
-	-	735,931
-	-	288,865
-	-	200,451
-	-	42,886
-	-	5,473
-	-	5,317
-	-	91,096
-	-	374,800
-	-	1,008,888
-	-	(272,957)
30,000	-	51,826
-	-	(47,304)
30,000	-	4,522
30,000	-	(268,435)
(30,000)	-	1,339,355
\$ -	\$ -	\$ 1,070,920

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MERCEDES ECONOMIC DEVELOPMENT CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

	General Fund	RBEG Grant Fund	IRP Loan Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 975,698	\$ -	\$ -	\$ 975,698
Restricted Cash and Cash Equivalents	275,024	275,671	292,056	842,751
Taxes Receivable	320,698	-	-	320,698
Notes Receivable, Net	116,501	549,199	201,833	867,533
Due from City of Mercedes	391,324	-	-	391,324
Redevelopment Assets	3,262,232	-	-	3,262,232
Total Assets	<u>\$ 5,341,477</u>	<u>\$ 824,870</u>	<u>\$ 493,889</u>	<u>\$ 6,660,236</u>
LIABILITIES				
Accounts Payable	\$ 8,239	\$ -	\$ -	\$ 8,239
Wages and Salaries Payable	3,514	-	-	3,514
Due to Others	78,805	-	-	78,805
Total Liabilities	<u>90,558</u>	<u>-</u>	<u>-</u>	<u>90,558</u>
FUND BALANCES				
Non-Spendable	3,262,232	-	-	3,262,232
Restricted	391,525	824,870	493,889	1,710,284
Unassigned Fund Balance	1,597,162	-	-	1,597,162
Total Fund Balances	<u>5,250,919</u>	<u>824,870</u>	<u>493,889</u>	<u>6,569,678</u>
Total Liabilities and Fund Balances	<u>\$ 5,341,477</u>	<u>\$ 824,870</u>	<u>\$ 493,889</u>	<u>\$ 6,660,236</u>

MERCEDES ECONOMIC DEVELOPMENT CORPORATION
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2022

Total Fund Balances - Governmental Funds	\$6,569,678
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital Assets totaled \$11,885, while Accumulated Depreciation was (\$11,885).	0
Long-Term receivable due from the City of Mercedes is not available to pay current expenditures and is not reported in the funds.	468,750
Deferred outflows and (inflows) of resources related to net pension and OPEB Liabilities are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual.	(28,450)
Long-Term liabilities, including net pension and total OPEB liability are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(4,593,018)</u>
Net position of governmental activities	<u>\$2,416,960</u>

MERCEDES ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Data Control Codes	General Fund	RBEG Grant Fund	IRP Loan Fund	Total Governmental Funds
REVENUES:				
5120 General Sales and Use Taxes	\$ 1,957,184	\$ -	\$ -	\$ 1,957,184
5610 Investment Earnings	6,147	16,437	9,138	31,722
5700 Other Revenue	125,000	-	-	125,000
5020 Total Revenues	<u>2,088,331</u>	<u>16,437</u>	<u>9,138</u>	<u>2,113,906</u>
EXPENDITURES:				
Current:				
0100 General Government	401,727	1,475	684	403,886
Conservation and Development:				
0650 Economic Development and Assistance	739,359	-	-	739,359
Debt Service:				
0710 Principal on Debt	1,026,590	-	25,307	1,051,897
0720 Interest on Debt	77,782	-	5,541	83,323
6030 Total Expenditures	<u>2,245,458</u>	<u>1,475</u>	<u>31,532</u>	<u>2,278,465</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(157,127)</u>	<u>14,962</u>	<u>(22,394)</u>	<u>(164,559)</u>
OTHER FINANCING SOURCES (USES):				
7949 Sale of Redevelopment Assets	357,192	-	-	357,192
7080 Total Other Financing Sources (Uses)	<u>357,192</u>	<u>-</u>	<u>-</u>	<u>357,192</u>
1200 Net Change in Fund Balances	200,065	14,962	(22,394)	192,633
0100 Fund Balance - October 1 (Beginning)	<u>5,050,854</u>	<u>809,908</u>	<u>516,283</u>	<u>6,377,045</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 5,250,919</u>	<u>\$ 824,870</u>	<u>\$ 493,889</u>	<u>\$ 6,569,678</u>

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MERCEDES ECONOMIC DEVELOPMENT CORPORATION
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Net Change in fund balance - governmental funds	\$192,633
Repayment of long-term debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position.	1,051,897
Repayment of notes receivable from the city are recorded as revenue in the governmental funds but reduces the receivable in the statement of net position.	(125,000)
Under the modified basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable and available financial resources. In the statement of activities, however, which is presented in the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.	<u>11,887</u>
Change in net position of governmental activities	<u>\$1,131,417</u>

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COMPLIANCE SECTION

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ADRIAN WEBB, CPA

Certified Public Accountant

McAllen, Texas

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

Independent Auditor's Report

To the City Commission of
City of Mercedes, 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 Mercedes, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Mercedes, Texas' basic financial statements and have issued our report thereon dated February 15, 2023.

Internal Control Over Financial Reporting

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

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items, 2022-001, and 2022-002 to be significant deficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Mercedes' 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 Mercedes' Response to Findings

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

Purpose of this Report

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

Adrian Webb, CPA

ADRIAN WEBB, CPA
Certified Public Accountant
McAllen, Texas

February 15, 2022

ADRIAN WEBB, CPA

Certified Public Accountant

McAllen, Texas

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

To the City Commission of
City of Mercedes, Texas

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

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Report on Internal Control over Compliance

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

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

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

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

Adrian Webb, CPA

ADRIAN WEBB, CPA
McAllen, Texas

February 15, 2023

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CITY OF MERCEDES, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

I. Summary of the Auditor's Results:

Financial Section:

A. The type of report issued: opinion	Unmodified
B. Internal control over financial statements:	
Material Weakness(es) identified?	No
Significant Deficiency(ies) identified which were not considered material weaknesses?	Yes
C. Noncompliance material to the financial statements noted.	No

Federal Awards Section:

D. The type of report issued: opinion	Unmodified
E. Internal control over Major Programs:	
Material Weakness(es) identified?	No
Significant Deficiency(ies) identified which were not considered material weaknesses?	No
F. Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
G. Identification of major programs: CFDA 21.027 COVID – 19 State and Local Recovery Funds (ARPA)	
H. Dollar threshold to distinguish between type A and type B programs:	\$750,000
I. Auditee qualifies as a low-risk auditee	No

CITY OF MERCEDES, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2022

II. Financial Statement Findings

2022-001 Control Over Fund Accounting Adjustments (Significant Deficiency)

Criteria:

Internal controls should be suitably designed and implemented to ensure the accounting for General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds are properly recorded in accordance with generally accepted accounting principles.

Condition:

We reviewed fund general ledgers as of September 30, 2022, and noted property taxes receivable, allowance for uncollectible property taxes, bond payables, due to/due from, and transfers in/out were not properly adjusted to the correct funds. As a whole, the net effect of the combined differences was immaterial, but on the fund level, they were considered significant. Also, deferred inflows of resources balances were the same as they were at the end of the previous fiscal year. The City is currently implementing processes and procedures to ensure the accounting for General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds are properly recorded in accordance with generally accepted accounting principles.

Cause:

The City has not fully implemented appropriate processes and procedures to ensure that the above funds are recorded properly in accordance with generally accepted accounting principles.

Repeat Finding:

2021-001(previously Material Weakness), 2020-001(previously Material Weakness)

Effect:

Account balances related to property taxes receivable, allowance for uncollectible property taxes, bonds payable, due to/due from, transfers in/out were not properly adjusted to the correct funds, and GASB 68 and GASB 75 accounts were misstated and required adjustments.

Recommendation:

The City should keep improving and implementing internal controls to ensure revenues are recognized in accordance with generally accepted accounting principles.

Corrective Action Plan

See management corrective action plan.

CITY OF MERCEDES, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2022

II. Financial Statement Findings

2022-002 – Capital Assets (Significant Deficiency)

Criteria:

Internal controls should be designed to ensure capital asset balances are free from material misstatements. A key control to achieve this objective is maintaining a complete and accurate capital asset listing and depreciation schedule.

Condition:

The following issues were noted as they relate to capital assets:

1. The depreciation expense at fiscal year-end was understated by \$116,444.

Cause:

The issues noted above were caused by the following:

1. The City maintains its capital asset depreciation schedules on an excel spreadsheet. The schedule is updated manually each year to reflect current year activity including capital asset additions and disposals as well as updating accumulated depreciation for current year depreciation expense. Due to the volume of data and high degree of manual input, the computations included within the excel spreadsheet contained errors which resulted in depreciation expense to be understated.

Repeat Finding:

2021-003, 2020-003, 2019-003

Effect:

Capital assets including depreciation expense was misstated.

Recommendation:

The City should strengthen internal controls over capital assets by updating the capital asset schedules throughout the year and implementing a review of the schedule by an individual other than the preparer. We recommend the schedule be reconciled to the general ledger throughout the year to ensure accuracy at fiscal year-end.

Corrective Action Plan

See management corrective action plan.

III. Findings Relating to Federal Awards and Questions Costs.

None

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City of Mercedes, Texas
SCHEDULE OF EXPENDITURES OF FEDERAL & STATE AWARDS
For the Year Ended September 30, 2022

Federal Grantor Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through To Subrecipients	Expenditures
Federal Awards				
U.S. Department of Housing and Urban Development				
Passed through Hidalgo County				
Community Development Block Grant 31st Year Entitlement Grant	14.218	B-18-UC-48-0501		\$ 10,173
Community Development Block Grant 32nd Year Entitlement Grant	14.218	B-19-UC-48-0501		\$ 22,366
Community Development Block Grant 33rd Year Entitlement Grant	14.218	B-20-UC-48-0501		\$ 25,914
Community Development Block Grant 34th Year Entitlement Grant	14.218	B-21-UC-48-0501		\$ 44,550
Department of Homeland Security				
Passed through the Texas Office of the Governor-Homeland Security Grants Division (HSGD)				
Hidalgo OPSG Project-Stonegarden-2020	97.067	EMW-2020-SS-00054		\$ 55,556
Hidalgo OPSG Project-Stonegarden-2021	97.067	EMW-2021-SS-00062		\$ 7,769
U.S. Department of Justice				
Office of Justice Program				
Coronavirus Emergency Supplemental Funding Program	16.034	2020-VD-BX-0002		\$ 32,258
U.S. Department of Treasury				
Direct Program				
American Rescue Plan	21.027			\$ 345,715
U.S. Department of Justice				
Office of Justice Programs (JAG)				
Southwest Border Rural Law Enforcement	16.738	219-MU-BX-K002		\$ 79,660
Total Expenditures of Federal Awards				<u>\$ 623,961</u>

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Mercedes, Texas. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of the basic financial statements. The City did not spend more than \$750,000 in federal awards, however, it was determined the funds received from 21.017 were considered a major program and subject to additional testing under Single Audit.

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

NOTE 2: INDIRECT COST RATE

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

NOTE 3: FEDERAL LOANS AND LOAN GUARANTEES

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

NOTE 4: SUB-RECIPIENTS

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

NOTE 5: NONCASH AWARDS

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

NOTE 6: FEDERALLY FUNDED INSURANCE

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



city of
mercedes

It Starts Here!

Queen City of the Rio Grande Valley

STATUS OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED SEPTEMBER 30, 2022

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, "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 questioned costs and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

Findings Related to the Financial Statements

2021-001 Accounting for EMS Services

Status: Corrected. Accounting for EMS services was corrected and a allowance for uncollectible was established.

2021-002 Recording of accruals

Status: Corrected. The City was able to correct this finding by implementing internal controls that required all department heads to ensure that they correctly state the invoice date/service date, rather than payment request date.

2021-003 Capital Assets

Status: Partially Corrected, see Finding 2022-002

2021-004 Cash Management

Status: Corrected. The City approved several ordinances to increase utility fund revenue. The City also received Bond Series 2021 to help remove the utility fund deficit.

2021-005 General Ledger Maintenance

Status: Partially Corrected. Due to nature of finding, and correction of other findings, see finding 2022-001.

2021-006 TIRZ Receivable

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Status: Corrected. As per previous auditor adjustments, this account has remained the same and balances are correct.

2021-007 Journal Entry Posting

Status: Corrected. All City journal entries that were reviewed for testing purposes contained both signatures for preparer and approver.

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

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

2022-001 Control Over Fund Accounting Adjustments (Significant Deficiency)

Corrective Action Plan

The City is currently working on correcting this finding by ensuring all funds are monitored and reconciled monthly.

Proposed Completion Date – September 30, 2023

Contact Person – Nereida Perez, Finance Director

2022-002 - Capital Assets (Significant Deficiency)

Corrective Action Plan

The City will continue correcting this finding by further updating the database and change the formula in the depreciation expense schedule to not reduce depreciation expense by an inappropriate amount when disposing of an asset.

Proposed Completion Date – September 30, 2023

Contact Person – Nereida Perez, Finance Director