
CITY OF MERCEDES, TEXAS

AUDITED ANNUAL FINANCIAL REPORT

FOR YEAR ENDED SEPTEMBER 30, 2023

ADRIAN WEBB

CERTIFIED PUBLIC ACCOUNTANT

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CITY OF MERCEDES, TEXAS
 Audited Annual Financial Report
 For Year Ended September 30, 2023

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INTRODUCTORY SECTION

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CITY OF MERCEDES, TEXAS

For the Year Ended September 30, 2023

CITY OFFICIALS

Oscar D. Montoya Sr.

Mayor

Ruben J. Saldana

Mayor Pro-Tem

Jacob C. Howell

Commissioner

Armando Garcia

Commissioner

Joe Martinez

Commissioner

CITY MANAGER

Alberto Perez

FINANCE DIRECTOR

Nereida Perez

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INDEPENDENT AUDITORS' REPORT

ADRIAN WEBB, CPA

**Certified Public Accountant
Edinburg, Texas**

Independent Auditor's Report

To the City Commission of
City of Mercedes, Texas

Report on the Audit of the Financial Statements

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, 2023, 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, 2023, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of 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, 2023, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. 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 for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of 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 March 21, 2024, 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
Edinburg, Texas
March 21, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2023**

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, 2023. 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 \$6,034,251. Net position from governmental activities increased \$5,333,355, while net position from business-type activities increased \$700,896.
- Revenues for the City's business-type charges for services increased from \$6,093,605 to \$6,714,279 and expenses increased from \$5,489,667 to \$6,512,456.
- The General Fund ended the year with a fund balance of \$9,924,339, a \$2,383,583, increase from prior year's balance of \$7,540,756.
- In comparing the General Fund's final budget to actual, revenues were \$1,254,433 more than the final budget, and expenditures were \$1,711,192 less than final budget. This resulted in a total positive budget to actual variance of \$2,965,625 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, 2023**

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 18-56 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 11-12) reported a combined fund balance of \$12,747,338 an increase of \$1,207,869 from the previous year ending September 30, 2023.

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2023**

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 \$17,173,073 to \$22,506,428. 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 \$9,752,085 as of September 30, 2023.

In 2023, net position of business-type activities increased from \$26,940,158 to \$27,641,054. Table I, below illustrates a comparative summary of the City's statement of net position as of September 30, 2023, and 2022.

Table I

	Governmental Activities		Business-Type Activities		Totals		Increase (Decrease)
	2023	2022	2023	2022	2023	2022	
Current Assets	\$ 18,680,269	\$ 18,851,507	\$ 2,715,413	\$ 1,799,103	\$ 21,395,682	\$ 20,650,610	\$ 745,072
Capital Assets, Net	34,480,492	33,848,249	34,744,779	34,809,436	69,225,271	68,657,685	567,586
Total Assets	53,160,761	52,699,756	37,460,193	36,608,539	90,620,954	89,308,295	1,312,659
Deferred Outflows of Resources	3,181,713	1,248,800	389,465	183,532	3,571,178	1,432,332	2,138,846
Total assets and deferred outflows of resources	56,342,474	53,948,556	37,849,658	36,792,071	94,192,132	90,740,627	3,451,505
Other Liabilities	5,875,235	7,521,212	2,150,070	1,355,984	8,025,305	8,877,196	(851,891)
Long-Term Liabilities	27,609,195	27,647,322	7,909,805	8,357,537	35,519,000	36,004,859	(485,859)
Total Liabilities	33,484,430	35,168,534	10,059,875	9,713,521	43,544,305	44,882,055	(1,337,750)
Deferred Inflows of Resources	351,616	1,606,949	148,729	138,392	500,345	1,745,341	(1,244,996)
Net Invested in Capital Assets	9,931,345	6,300,226	26,779,480	25,360,913	36,710,825	31,661,139	5,049,686
Restricted	2,822,998	4,011,157	-	-	2,822,998	4,011,157	(1,188,159)
Unrestricted	9,752,085	6,861,690	861,574	1,579,245	10,613,659	8,440,935	2,172,724
Total Net Position	22,506,428	17,173,073	27,641,054	26,940,158	50,147,482	44,113,231	6,034,251
Total Liabilities, deferred inflows of resources and net position	\$ 56,342,474	\$ 53,948,556	\$ 37,849,658	\$ 36,792,071	\$ 94,192,132	\$ 90,740,627	\$ 3,451,505

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2023**

Table II

	Governmental		Business-Type		Totals		Increase (Decrease)
	2023	2022	2023	2022	2023	2022	
Revenues							
Program Revenues							
Charges for Services	\$ 3,365,247	\$ 2,680,856	\$ 6,714,279	\$ 6,093,605	\$ 10,079,526	\$ 8,774,461	\$ 1,305,065
Operating Grants and Contributions	2,498,663	1,046,314	-	-	2,498,663	1,046,314	1,452,349
General Revenues							
Property Taxes	5,957,425	5,548,174	-	-	5,957,425	5,548,174	409,251
Non Property Taxes	6,575,621	5,923,531	-	-	6,575,621	5,923,531	652,090
Franchise Taxes	730,045	673,136	-	-	730,045	673,136	56,909
Other Revenues	907,528	227,270	-	-	907,528	227,270	680,258
Investment Earnings	704,652	113,396	20,312	2,184	724,964	115,580	609,384
Miscellaneous	932,025	1,017,952	-	-	932,025	1,017,952	(85,927)
Total Revenues	21,671,206	17,230,629	6,734,591	6,095,789	28,405,797	23,326,418	5,079,379
Expenses							
General Government	4,088,167	3,826,089	-	-	4,088,167	3,826,089	262,078
Public safety	5,719,104	5,333,917	-	-	5,719,104	5,333,917	385,187
Public works	502,451	575,725	-	-	502,451	575,725	(73,274)
Highway and Streets	553,157	482,254	-	-	553,157	482,254	70,903
Health and Welfare	2,142,077	1,875,043	-	-	2,142,077	-	-
Culture and Recreation	1,370,963	1,213,693	-	-	1,370,963	1,213,693	157,270
Conservation and Development	700,000	-	-	-	700,000	-	700,000
Interest on long-term debt	661,885	805,855	-	162,962	661,885	968,817	(306,932)
Utility Services	-	167,199	6,512,456	5,326,705	6,512,456	5,493,904	1,018,552
Total Expenses	15,737,804	14,279,775	6,512,456	5,489,667	22,250,260	17,894,399	4,355,861
Increase in net position before transfers	5,933,402	2,950,854	222,135	606,122	6,155,537	5,432,019	723,518
Transfers	(478,761)	(362,580)	478,761	362,580	-	-	-
Change in Net Position	5,454,641	2,588,274	700,896	968,702	6,155,537	3,556,976	2,598,561
Net Position Beginning	17,173,073	14,558,060	26,940,158	25,971,456	44,113,231	71,053,389	(26,940,158)
Prior Period Adjustment	(121,286)	26,739	-	-	(121,286)	26,739	(148,025)
Net Position Ending	\$ 22,506,428	\$ 17,173,073	\$ 27,641,054	\$ 26,940,158	\$ 50,147,482	\$ 44,113,231	\$ 6,034,251

The cost of all governmental activities in the current year was \$15,737,804. However, as shown in Table II, the amount financed by property and non-property taxes were \$5,957,425 and \$6,575,621, respectively. The remaining costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the City had \$69,225,271 (net of depreciation) invested in capital assets, including facilities, land, infrastructure, vehicles, and equipment, as further discussed in Note 2 – Capital Assets. This is an increase of \$567,586, from the previous fiscal year.

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2023**

Long-Term Debt

By the end of the fiscal year, the City had long-term obligations totaling \$33,689,367 versus \$36,713,589 at the end of last year, a decrease of \$3,024,222. The following is a summary of long-term obligations:

	Governmental		Increase
	2023	2022	(Decrease)
General obligation debt	\$ 19,284,700	\$ 20,878,600	\$ (1,593,900)
Premium on bonds	619,801	667,581	(47,780)
Notes Payable	343,750	468,750	(125,000)
Settlement Payable	4,920,697	5,420,697	(500,000)
Compensated absences	324,957	327,307	(2,350)
	\$ 25,493,905	\$ 27,762,935	\$ (2,269,030)

	Business-Type		Increase
	2023	2022	(Decrease)
General obligation debt	\$ 7,965,300	\$ 8,686,400	\$ (721,100)
Premium on bonds	209,831	242,113	(32,282)
Compensated absences	20,331	22,141	(1,810)
	\$ 8,195,462	\$ 8,950,654	\$ (755,192)

The City also recognized net pension and OPEB liabilities of \$4,388,255 and \$290,765, 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 2023-2024, 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. Total revenues and other financing sources for the City's General Fund for fiscal year 2023-2024 are budgeted at \$15,086,061, which is a decrease of \$195,839, over the fiscal year 2022-2023 budget. Expenditures and other financing uses are budgeted at \$15,086,061, which is a decrease of \$195,839, over the fiscal year 2022-2023 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.

FINANCIAL STATEMENTS

CITY OF MERCED
STATEMENT OF NET POSITION
As of September 30, 2023

Exhibit A - 1

	Governmental Activities	Business - Type Activities	Total	Development Corporation of Mercedes
ASSETS:				
1010 Cash and Cash Equivalents	\$ 11,447,944	\$ 1,691,621	\$ 13,139,565	\$ 1,025,511
1011 Restricted Cash	2,279,104	281,846	2,560,950	888,993
1050 Taxes Receivable	2,420,098	-	2,420,098	364,127
1051 Allowance for Uncollectible Taxes (credit)	(383,943)	-	(383,943)	-
1150 Accounts Receivable, Net	1,842,325	1,036,187	2,878,513	-
1260 Due from Other Governments	270,765	-	270,765	-
1300 Due from Other Funds	294,241	(294,241)	-	-
1410 Inventories	62,599	-	62,599	-
1600 Note Receivable	220,447	-	220,447	832,152
Capital Assets				
1791 Capital Assets Not Being Depreciated	3,842,788	658,444	4,501,232	-
1792 Capital Assets Being Depreciated	54,239,106	65,179,067	119,418,173	33,042
1780 Accumulated Depreciation	(23,601,402)	(31,092,732)	(54,694,134)	-
Capital Assets, Net	34,480,492	34,744,779	69,225,271	33,042
1990 Land Held For Development	226,688	-	226,688	3,313,791
TOTAL ASSETS	53,160,761	37,460,194	90,620,954	6,457,616
DEFERRED OUTFLOWS OF RESOURCES:				
1991 Deferred Charge for Refunding	179,521	88,778	268,299	-
1992 Deferred Outflow Related to Pension Plan	2,973,082	283,124	3,256,206	101,808
1993 Deferred Outflow Related to OPEB	29,110	17,563	46,673	5,211
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,181,713	389,465	3,571,178	107,019
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 56,342,474	\$ 37,849,658	\$ 94,192,132	\$ 6,564,635
LIABILITIES:				
2010 Accounts Payable	\$ 1,070,306	\$ 798,142	\$ 1,868,447	\$ 1,529
2020 Wages and Salaries Payable	139,069	9,450	148,519	6,553
2030 Compensated Absences Payable	324,957	20,331	345,288	-
2100 Due to Component Unit	601,046	-	601,046	(601,046)
2140 Accrued Interest Payable	100,427	26,663	127,090	5,969
2201 Customer Deposits	-	558,185	558,185	-
2230 Unearned Revenues	1,872,630	-	1,872,630	-
2501 Debt Service - Due Within One Year	1,766,800	737,300	2,504,100	1,180,296
Noncurrent Liabilities:				
2502 Debt Service - Due in More Than One Year	22,782,347	7,228,000	30,010,347	2,234,188
2560 Unamortized Premiums (Discounts) on Bonds	619,801	209,831	829,632	-
2580 Net Pension Liability	3,941,302	446,953	4,388,255	127,777
2585 Net OPEB Liability	265,744	25,021	290,765	8,738
TOTAL LIABILITIES	33,484,429	10,059,876	43,544,305	2,964,004
DEFERRED INFLOWS OF RESOURCES:				
2602 Deferred Inflow Related to Pension Plan	255,245	125,718	380,963	57,873
2603 Deferred Inflow Related to OPEB	96,371	23,011	119,382	7,693
TOTAL DEFERRED INFLOWS OF RESOURCES	351,616	148,729	500,345	65,566
NET POSITION:				
4001 Net Investment in Capital Assets	9,931,345	26,779,480	36,710,825	-
3850 Restricted for Capital Projects	731,673	-	731,673	-
3860 Restricted for Debt Service	896,035	-	896,035	-
3870 Restricted for Other Purposes	1,195,290	-	1,195,290	1,568,844
3890 Unrestricted	9,752,085	861,574	10,613,659	1,966,221
TOTAL NET POSITION	22,506,428	27,641,054	50,147,482	3,535,065
TOTAL LIABILITIES, DEFERRED LIABILITIES & NET POSITION	\$ 56,342,474	\$ 37,849,658	\$ 94,192,132	\$ 6,564,635

CITY OF MERCEDES
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2023

Exhibit B-1

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Development Corporation of Mercedes
PRIMARY GOVERNMENT							
Governmental Activities:							
100 General Government	\$ 4,088,167	\$ 1,649,018	\$ 1,975,395	\$ (463,754)	\$ -	\$ (463,754)	\$ -
200 Public Safety	5,719,104	749,650	296,495	(4,672,960)	-	(4,672,960)	-
300 Public Works	502,451	283,811	-	(218,640)	-	(218,640)	-
310 Highway and Streets	553,157	-	226,774	(326,383)	-	(326,383)	-
400 Health and Welfare	2,142,077	682,769	-	(1,459,309)	-	(1,459,309)	-
500 Culture and Recreation	1,370,963	-	-	(1,370,963)	-	(1,370,963)	-
600 Conservation and Development	700,000	-	-	(700,000)	-	(700,000)	-
720 Interest on Debt	661,885	-	-	(661,885)	-	(661,885)	-
Total Governmental Activities	15,737,804	3,365,247	2,498,663	(9,873,894)	-	(9,873,894)	-
Business Type Activities:							
10 Water and Sewer Expenses	6,512,456	6,714,279	-	-	201,823	201,823	-
Total Business-Type Activities	6,512,456	6,714,279	-	-	201,823	201,823	-
TOTAL PRIMARY GOVERNMENT	22,250,261	10,079,526	2,498,663	(9,873,894)	201,823	(9,672,071)	-
Component Unit:							
100 General Government	-	-	-	-	-	-	471,632
650 Economic Development and Assistance	-	-	-	-	-	-	485,818
720 Interest on Debt	-	-	-	-	-	-	76,374
Total Component Unit	-	-	-	-	-	-	1,033,824
General Revenues:							
5111 Property Taxes, Levied for General Purposes				3,549,856	-	3,549,856	-
5112 Property Taxes, Levied for Debt Service				2,407,569	-	2,407,569	-
5120 General Sales and Use Taxes				6,396,225	-	6,396,225	2,101,933
5170 Franchise Tax				730,045	-	730,045	-
5180 Other Taxes				179,396	-	179,396	-
5190 Penalty and Interest on Taxes				131,115	-	131,115	-
5200 Licenses and Permits				543,205	-	543,205	-
5510 Fines				73,785	-	73,785	-
5610 Investment Earnings				704,652	-	704,652	-
5620 Rents and Royalties				17,045	-	17,045	-
5650 Contributions				166,877	-	166,877	-
5700 Other Revenue				907,528	-	907,528	-
7955 Investment Earnings				-	20,312	20,312	49,997
7958 Nonoperating Transfers In(Out)				(478,761)	478,761	-	-
Total General Revenues and Transfers				15,328,535	499,073	15,827,609	2,151,930
Change in Net Position				\$ 5,454,641	\$ 700,896	\$ 6,155,537	\$ 1,118,106
Net Position - Beginning				\$ 17,173,073	\$ 26,940,158	\$ 44,113,231	\$ 2,416,959
Prior Period Adjustments				(121,286)	-	(121,286)	-
Net Position - Ending				<u>\$ 22,506,428</u>	<u>\$ 27,641,054</u>	<u>\$ 50,147,482</u>	<u>\$ 3,535,065</u>

CITY OF MERCED
BALANCE SHEET - GOVERNMENTAL FUNDS
As of September 30, 2023

Exhibit C - 1

	General Fund	ARPA	Interest and Sinking	Series 2021	Total Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:						
1010 Cash and Cash Equivalents	\$ 5,635,508	\$ -	\$ 447,851	\$ 4,071,738	\$ 1,292,846	\$ 11,447,944
1011 Restricted Cash	-	1,831,130	447,974	-	-	2,279,104
1050 Taxes Receivable	2,057,009	-	363,090	-	-	2,420,098
1051 Allowance for Uncollectible Taxes (credit)	(270,059)	-	(113,884)	-	-	(383,943)
1150 Accounts Receivable, Net	1,809,671	-	-	-	32,654	1,842,325
1260 Due from Other Governments	-	-	-	-	270,765	270,765
1300 Due from Other Funds	3,415,320	-	210	-	97,482	3,513,013
1410 Inventories	62,599	-	-	-	-	62,599
1990 Land Held For Development	226,688	-	-	-	-	226,688
TOTAL ASSETS	12,936,737	1,831,130	1,145,241	4,071,738	1,693,748	21,678,594
LIABILITIES:						
2010 Accounts Payable	\$ 670,196	\$ 45,547	\$ -	\$ 348,361	\$ 6,201	\$ 1,070,306
2020 Wages and Salaries Payable	129,822	-	-	-	9,247	139,069
2080 Due to Other Funds	98,449	-	-	3,065,294	55,028	3,218,772
2100 Due to Component Unit	601,046	-	-	-	-	601,046
2230 Unearned Revenues	-	1,785,582	-	-	87,048	1,872,630
TOTAL LIABILITIES	1,499,513	1,831,130	-	3,413,656	157,525	6,901,823
DEFERRED INFLOWS OF RESOURCES:						
2601 Deferred Resource Inflow - Property Taxes	378,039	-	249,206	-	-	627,245
2604 Deferred Resource Inflow - EMS	1,134,846	-	-	-	-	1,134,846
2605 Deferred Resource Inflow - TIRZ	-	-	-	-	267,341	267,341
TOTAL DEFERRED INFLOWS OF RESOURCES	1,512,885	-	249,206	-	267,341	2,029,433
FUND BALANCES:						
3445 Non-Spendable	226,688	-	-	-	-	226,688
3480 Restricted for Debt Service	-	-	896,035	-	-	896,035
3490 Restricted for Special Purposes	-	-	-	-	1,195,290	1,195,290
3550 Committed for Construction	-	-	-	658,082	73,591	731,673
3600 Unassigned	9,697,651	-	-	-	-	9,697,651
TOTAL FUND BALANCES	9,924,339	-	896,035	658,082	1,268,881	12,747,338
TOTAL LIABILITIES, DEFERRED INFLOWS & FUND BALANCES	\$ 12,936,737	\$ 1,831,130	\$ 1,145,241	\$ 4,071,738	\$ 1,693,748	\$ 21,678,594

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION

As of September 30, 2023

Total Fund Balances - Governmental Funds	\$ 12,747,338
Amounts Reported for governmental activities in the statement of net position are different because:	
Long-term note receivables used in governmental activities are not available in the current period and therefore not reported in the funds	
1600 Note Receivable	220,447
Total Notes Receivable	220,447
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
1791 Capital Assets Not Being Depreciated	3,842,788
1792 Capital Assets Being Depreciated	54,239,106
1780 Accumulated Depreciation	(23,601,402)
Total Capital Assets, Net	34,480,492
Long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds.	
1991 Deferred Charge for Refunding	179,521
2030 Compensated Absences Payable	(324,957)
2560 Unamortized Premiums (Discounts) on Bonds	(619,801)
2501 Debt Service - Due Within One Year	(1,766,800)
2502 Debt Service - Due in More Than One Year	(22,782,347)
Total Long-Term Liabilities	(25,314,384)
Some receivables are reported as deferred inflows of resources in the governmental	
2601 Deferred Resource Inflow - Property Taxes	627,245
2604 Deferred Resource Inflow - EMS	1,134,846
2605 Deferred Resource Inflow - TIRZ	267,341
Total deferred inflows of resources	2,029,433
Interest on long-term debt is not accrued in the governmental funds, but is recognized as an expenditure in the funds.	
2140 Accrued Interest Payable	(100,427)
Total Accrued Interest	(100,427)
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.	
2580 Net Pension Liability	(3,941,302)
2602 Deferred Inflow Related to Pension Plan	(255,245)
1992 Deferred Outflow Related to Pension Plan	2,973,082
	(1,223,465)
Included in the noncurrent liabilities is the recognition of the City's OPEB liability required by GASB Statement No. 75, a deferred resource outflow, and a deferred inflow. This resulted in a decrease in net position.	
2585 Net OPEB Liability	(265,744)
2603 Deferred Inflow Related to OPEB	(96,371)
1993 Deferred Outflow Related to OPEB	29,110
	(333,005)
Net position of governmental activities	\$ 22,506,428

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, 2023

Exhibit C - 3

	General Fund	ARPA	Interest and Sinking	Series 2021	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
5110 Property Taxes	\$ 3,505,718	\$ -	\$ 2,367,832	\$ -	\$ -	\$ 5,873,550
5120 General Sales and Use Taxes	6,396,225	-	-	-	-	6,396,225
5170 Franchise Tax	730,045	-	-	-	-	730,045
5180 Other Taxes	-	-	-	-	179,396	179,396
5190 Penalty and Interest on Taxes	84,003	-	47,112	-	-	131,115
5200 Licenses and Permits	536,205	-	-	-	7,000	543,205
5300 Intergovernmental Revenue and Grants	1,036,350	939,044	-	-	523,269	2,498,663
5400 Charges for Services	3,365,247	-	-	-	-	3,365,247
5510 Fines	73,785	-	-	-	-	73,785
5610 Investment Earnings	263,709	119,615	45,597	234,852	40,879	704,652
5620 Rents and Royalties	17,045	-	-	-	-	17,045
5650 Contributions	-	-	-	-	166,877	166,877
5700 Other Revenue	528,002	-	-	350,982	28,545	907,528
TOTAL REVENUES	16,536,333	1,058,659	2,460,541	585,834	945,964	21,587,332
100 General Government	3,358,282	4,729	-	62	423,193	3,786,267
200 Public Safety	5,187,312	-	-	102,009	191,123	5,480,443
300 Public Works	476,951	-	-	-	-	476,951
310 Highway and Streets	527,717	-	-	-	-	527,717
400 Health and Welfare	1,972,565	7,718	-	57,041	5,055	2,042,378
500 Culture and Recreation	1,289,641	-	-	-	5,509	1,295,150
600 Conservation and Development	-	-	-	-	700,000	700,000
710 Principal on Debt	625,000	-	1,593,900	-	-	2,218,900
720 Interest on Debt	-	-	687,385	-	-	687,385
800 Capital Outlay	133,241	34,864	-	2,512,239	55,522	2,735,866
TOTAL EXPENDITURES	\$ 13,570,708	\$ 47,312	\$ 2,281,285	\$ 2,671,350	\$ 1,380,402	18,570,655
Excess(Deficiency) of Revenues Over(Under)						
Expenditures	2,965,625	1,011,348	179,256	(2,085,517)	(434,438)	1,636,275
7912 Sale of Real and Personal Property	50,355	-	-	-	-	50,355
7915 Transfers In	-	-	-	532,587	632,397	1,164,984
7958 Nonoperating Transfers In(Out)	-	(478,761)	-	-	-	(478,761)
8911 Transfers Out	(632,397)	(532,587)	-	-	-	(1,164,984)
TOTAL OTHER FINANCING SOURCES (USES)	(582,043)	(1,011,348)	-	532,587	632,397	(428,406)
Net Change in Fund Balances	\$ 2,383,583	\$ -	\$ 179,256	\$ (1,552,930)	\$ 197,960	\$ 1,207,869
Fund Balance - October 1 (Beginning)	\$ 7,540,756	\$ -	\$ 716,779	\$ 2,211,012	\$ 1,070,922	\$ 11,539,469
Fund Balance - September 30 (Ending)	\$ 9,924,339	\$ -	\$ 896,035	\$ 658,082	\$ 1,268,881	\$ 12,747,338

CITY OF MERCEDES

Exhibit C - 4

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, 2023

Net Change in fund balance - governmental funds		\$ 1,207,869
Amounts reported in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense.		
Additions to capital assets	2,735,866	
Depreciation on capital assets	<u>(1,982,337)</u>	753,529
Repayment of notes receivable are recorded as revenue in the fund statements but reduces the notes receivable in the statement of net position.		(28,290)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal repayment	2,218,900	
Compensated absences	<u>2,350</u>	2,221,250
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Amortization of Premium	47,780	
Deferred Charge for Refunding	(11,040)	
Accrued Interest Payable	<u>11,968</u>	48,708
Because some property taxes, and accounts receivable will not be collected for several months after the city's fiscal year end, that are not considered "available" revenues in the governmental funds. This represents the change in unavailable revenue from the prior year.		
Property Taxes	55,685	
EMS	<u>273,057</u>	328,742
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 an increase in net position		
Net Pension Liability	(2,414,058)	
Deferred Inflow Related to Pension Plan	1,273,452	
Deferred Outflow Related to Pension Plan	<u>2,048,017</u>	907,411
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 an increase in net position		
Net OPEB Liability	137,606	
Deferred Inflow Related to OPEB	(18,119)	
Deferred Outflow Related to OPEB	<u>(104,064)</u>	15,423
Change in Net Position of Governmental Activities		<u><u>\$ 5,454,641</u></u>

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

CITY OF MERCEDES
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
As of September 30, 2023

Exhibit D - 1

	Water and Sewer Fund
ASSETS:	
Current Assets	
1010 Cash and Cash Equivalents	\$ 1,691,621
1011 Restricted Cash	281,846
1150 Accounts Receivable, Net	1,036,187
1300 Due from Other Funds	3,078,520
Total Current Assets	6,088,175
Noncurrent Assets:	
Capital Assets:	
1791 Capital Assets Not Being Depreciated	658,444
1792 Capital Assets Being Depreciated	65,179,067
1780 Accumulated Depreciation	(31,092,732)
Total Noncurrent Assets	34,744,779
TOTAL ASSETS	40,832,955
1991 Deferred Charge for Refunding	88,778
1992 Deferred Outflow Related to Pension Plan	283,124
1993 Deferred Outflow Related to OPEB	17,563
TOTAL DEFERRED OUTFLOWS OF RESOURCES	389,465
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 41,222,419
LIABILITIES:	
Current Liabilities:	
2010 Accounts Payable	\$ 798,142
2020 Wages and Salaries Payable	9,450
2030 Compensated Absences Payable	20,331
2080 Due to Other Funds	3,372,761
2140 Accrued Interest Payable	26,663
2201 Customer Deposits	558,185
2501 Debt Service - Due Within One Year	737,300
Total Current Liabilities	5,522,831
Noncurrent Liabilities:	
2502 Debt Service - Due in More Than One Year	7,228,000
2560 Unamortized Premiums (Discounts) on Bonds	209,831
2580 Net Pension Liability	446,953
2585 Net OPEB Liability	25,021
Total Noncurrent Liabilities	7,909,805
TOTAL LIABILITIES	13,432,637
DEFERRED INFLOWS OF RESOURCES:	
2602 Deferred Inflow Related to Pension Plan	125,718
2603 Deferred Inflow Related to OPEB	23,011
TOTAL DEFERRED INFLOWS OF RESOURCES	148,729
FUND BALANCES:	
4001 Net Investment in Capital Assets	26,569,648
3890 Unrestricted	1,071,405
TOTAL FUND BALANCES	27,641,054
TOTAL LIABILITIES, DEFERRED LIABILITIES & FUND BALANCES	\$ 41,222,419

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

CITY OF MERCEDES
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
For the Year Ended September 30, 2023

Exhibit D - 2

		Water and Sewer Fund
REVENUES:		
5401	Water Revenues	\$ 3,800,318
5402	Sewer Revenues	2,913,961
	TOTAL REVENUES	6,714,279
EXPENDITURES:		
10	Water and Sewer Expenses	4,820,162
910	Depreciation Expense	1,468,205
	TOTAL EXPENDITURES	6,288,367
	OPERATING INCOME (LOSS)	425,912
NON-OPERATION REVENUES(EXPENSES)		
7955	Investment Earnings	20,312
7956	Interest Expense - Nonoperating	(224,089)
7958	Nonoperating Transfers In(Out)	478,761
	TOTAL NON-OPERATION REVENUES(EXPENSES)	274,984
	NET INCOME(LOSS)	\$ 700,896
	Net position, beginning of year	\$ 26,940,158
	Net position, ending of year	\$ 27,641,054

CITY OF MERCEDES
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
As of September 30, 2023

Exhibit D - 3

<hr/>	
Cash Flows from Operating Activities:	
Cash Received from User Charges	\$ 6,528,810
Cash Payments to Employees for Services	(630,963)
Cash Payments for Suppliers	(4,183,401)
Net Cash Provided by Operating Activities	<hr/> 1,714,447
<hr/>	
Cash Flows from Non-Capital Financing Activities:	
Decrease from Due To and Due From	324,706
Operating Transfer In	478,761
Net Cash Provided by Non-Capital Financing Activities	<hr/> 803,467
<hr/>	
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(539,856)
Reduction of Debt	(721,100)
Interest Paid on Long-Term Debt	(221,722)
Net Cash Provided by (Used for) Capital Related Financing Activities	<hr/> (1,482,678)
<hr/>	
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	20,312
Net Increase in Cash and Cash Equivalents	<hr/> 1,055,548
Cash, Restricted Cash, and Cash Equivalents at Beginning of Year	917,919
Cash, Restricted Cash, and Cash Equivalents at End of Year	<hr/> <hr/> 1,973,467
<hr/>	
Reconciliation of Operating Income of Net Cash Provided By Operating Activities:	
Operating Income	201,823
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,468,205
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(185,468)
Increase(Decrease) in Accounts Payable	89,027
Increase(Decrease) in Accrued Interest Payable	(2,367)
Increase(Decrease) in Customer Deposits	51,065
Amortization of Bond Premium	(16,141)
Amortization of Deferred Charge on Refunding	7,193
Change in Deferred Pension Inflow	10,337
Change in Deferred Pension Outflow	(213,126)
Change in Net Pension Liability	305,709
Net Cash Provided by Operating Activities	<hr/> <hr/> 1,714,447

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

NOTES TO FINANCIAL STATEMENTS

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies

The City of Mercedes, Texas (the “City”) was incorporated in 1909, under 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies - Continued

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 governing body. Seven (7) directors are appointed by the City Commission of Mercedes who form the 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 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies - Continued

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.

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 based on 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies - Continued

Major Governmental Funds

The City reports the following major Governmental Funds:

The General Fund— the City’s primary operating fund. It accounts for all 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.

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 he 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, the legal level of budgetary responsibility is at the departmental level.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies - Continued

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.

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 interfund receivables of the General Fund and interfund payables of the deficit fund.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies – Continued

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.

iii. Investments

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in the Tex Pool 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies – Continued

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 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies - Continued

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

The right-to-use lease asset capitalization level is determined by the Board. The term of the lease must be the non-cancelable period during which the District has the right to use the tangible assets of another entity plus any periods in which either the lessee or the lessor has the sole option to extend the lease if it is reasonably certain the option will be exercised, plus any periods in which either the lessee or the lessor has the sole option to terminate the lease if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a short-term lease under GASB 87. As of September 30, 2023, the City's right-of-use assets are recognized in the financial statements.

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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies - Continued

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 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*.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies – Continued

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 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). 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).

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies – Continued

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

Non-spendable fund balance – Non-spendable 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 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies – Continued

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.

xvi. Recently Issued and Implemented Accounting Pronouncements

- 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, 2023, and all reporting periods thereafter. This Statement has been implemented by the city as reflected in the financial statements as of September 30, 2023.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies – Continued

- 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, 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. This Statement has been implemented by the city as reflected in the financial statements as of September 30, 2023.

- 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 2023* – 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 1 - Summary of Significant Accounting Policies - Continued

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

- 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, 2023, 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

A reconciliation of cash and investments follows:

Description	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Cash and Cash Equivalents	\$ 11,164,612	\$ 1,691,621	\$ 12,856,233	\$ 1,025,511
Restricted cash	2,279,104	281,846	2,560,950	888,993
Money Market	281,846	-	281,846	-
	<u>\$ 13,725,562</u>	<u>\$ 1,973,467</u>	<u>\$ 15,699,029</u>	<u>\$ 1,914,504</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, 2023, the investments in Texas CLASS external investment pool were 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

For financial reporting purposes, the City and component units reported amounts for investment pools of \$ 15,699,029 and \$ 1,914,504 respectively, in cash and cash equivalents on the Statement of Net Position as of September 30, 2023. There were no unfunded commitments as of September 30, 2023, 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, 2023, consist of the following:

	Primary Government					Component Unit
	Governmental Funds			Business-type Activities		
	General Fund	Debt Service Fund	Non-Major Funds	Total	Utility Fund	
Receivables						
Property taxes	\$ 648,099	\$ 363,090	\$ -	\$ 1,011,189	\$ -	\$ -
Sales taxes	1,408,910	-	-	1,408,910	-	364,127
Intergovernmental		-	530,937	530,937	-	-
Ambulance Fees	1,976,409	-	-	1,976,409	-	-
Trade	-	-	-	-	1,287,660	860,479
Other receivables	402,573	-	32,654	435,227	-	-
Gross receivables	4,435,991	363,090	563,591	5,362,672	1,287,660	1,224,605
Less: Allowance for uncollectible	(1,111,622)	(113,884)	(258,686)	(1,484,192)	(251,473)	(28,327)
Net receivables	<u>\$ 3,324,369</u>	<u>\$ 249,206</u>	<u>\$ 304,905</u>	<u>\$ 3,878,480</u>	<u>\$ 1,036,187</u>	<u>\$ 1,196,278</u>

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 \$526,028. 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 \$258,686, related to the TIRZ receivable.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

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 creditworthiness. 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.

Notes receivable as of September 30, 2023, consist of the following:

<u>Description</u>	<u>Governmental Activities</u>	<u>Component Unit</u>
Promissory Note VIDA	220,447	-
De La Garza Bakery	-	78,007
MD International (Orb-Galvan)	-	103,389
MD International	-	43,380
MD International (Galvan)	-	102,094
First National Bank (Gomez)	-	16,133
First National Bank (Gomez)	-	25,822
Mario and Martha Castaneda	-	56,066
Reybotics, LLC	-	145,828
Raquel Moreno	-	1,393
The Grind	-	33,670
Top Gym	-	24,740
Valor Fitness LLC	-	42,524
NTM Ventures LLC	-	77,448
Martha Carrillo	-	68,672
Ashley R. Gonzalez	-	41,315
Total Notes Receivable	<u>220,447</u>	<u>860,479</u>
Less: Allowance for Uncollectible	-	(28,327)
Total Notes Receivable, Net	<u>\$ 220,447</u>	<u>\$ 832,152</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 creditworthiness, and current economic trends. As of September 30, 2023, the component unit estimated an allowance for uncollectible loans receivable of \$28,327.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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, 2023, the City and component units reported redevelopment assets of \$226,688 and \$3,313,791 respectively.

Note 2 – Detail Notes on all Funds – Continued

D. Capital Assets

Capital asset activity for the year ended September 30, 2023, is as follows:

	Original Beginning Balance October 1, 2022	Prior Period Adjustment	Restated Beginning Balance October 1, 2022	Additions	Retirements	Transfers	Ending Balance September 30, 2023
Governmental Activities							
Capital Assets not Being Depreciated							
Land	\$ 1,277,932	\$ -	\$ 1,277,932	\$ -	\$ -	\$ -	\$ 1,277,932
Construction in progress	1,231,024	-	1,231,024	2,231,141	-	(897,309)	2,564,856
Total Capital Assets not Being Depreciated	2,508,956	-	2,508,956	2,231,141	-	(897,309)	3,842,788
Capital Assets Being Depreciated							
Buildings	14,118,562	-	14,118,562	-	-	-	14,118,562
Vehicles	4,611,293	-	4,611,293	209,394	(337,198)	-	4,483,489
Equipment	4,521,322	(13,980)	4,507,341	94,263	(48,856)	-	4,552,748
Improvements	4,489,976	(196)	4,489,780	165,583	-	325,472	4,980,835
Infrastructure	25,496,151	(2)	25,496,149	35,485	-	571,837	26,103,471
Total Capital Assets Being Depreciated	53,237,304	(14,178)	53,223,126	504,725	(386,054)	897,309	54,239,105
Less Accumulated Depreciation For							
Buildings	(3,800,479)	(18,499)	(3,781,980)	(287,681)	-	-	(4,069,661)
Vehicles	(3,368,611)	(16,396)	(3,352,215)	(465,508)	337,198	-	(3,480,525)
Equipment	(3,024,433)	(14,200)	(3,010,233)	(426,087)	48,856	-	(3,387,463)
Improvements	(1,373,261)	(6,684)	(1,366,577)	(185,196)	-	-	(1,551,773)
Infrastructure	(10,545,445)	(51,329)	(10,494,116)	(617,865)	-	-	(11,111,980)
Total Accumulated Depreciation	(21,898,011)	(107,108)	(22,005,119)	(1,982,337)	386,054	-	(23,601,402)
Net Capital Assets Being Depreciated	31,339,293	(121,286)	31,218,006	(1,477,612)	-	897,309	30,637,704
Governmental Activities - Total Capital Assets, Net	\$ 33,848,249	\$ (121,286)	\$ 33,726,962	\$ 753,529	\$ -	\$ -	\$ 34,480,492
Business-Type Activities							
Capital Assets not Being Depreciated							
Land	\$ 199,100	\$ -	\$ 199,100	\$ -	\$ -	\$ -	\$ 199,100
Construction in progress	157,993	-	157,993	312,838	-	(11,487)	459,344
Total Capital Assets not Being Depreciated	357,093	-	357,093	312,838	-	(11,487)	658,444
Capital Assets Being Depreciated							
Furniture and equipment	3,508,968	-	3,508,968	182,609	-	-	3,691,577
Water system	32,562,656	-	32,562,656	186,743	-	-	32,749,400
Sewer system	28,005,245	-	28,005,245	239,018	-	-	28,244,264
Total Capital Assets Being Depreciated	64,076,870	-	64,076,870	608,371	-	-	64,685,241
Less Accumulated Depreciation For							
Furniture and equipment	(1,622,294)	-	(1,622,294)	-	-	-	(1,622,294)
Water system	(15,054,626)	-	(15,054,626)	(788,325)	-	-	(15,842,951)
Sewer system	(12,947,607)	-	(12,947,607)	(679,880)	493,826	-	(13,133,661)
Total Accumulated Depreciation	(29,624,527)	-	(29,624,527)	(1,468,205)	493,826	-	(30,598,906)
Net Capital Assets Being Depreciated	34,452,343	-	34,452,343	(859,834)	493,826	-	34,086,335
Business-Type Activities - Total Capital Assets, Net	\$ 34,809,436	\$ -	\$ 34,809,436	\$ (546,996)	\$ 493,826	\$ (11,487)	\$ 34,744,779
Total Capital Assets, Net	\$ 68,657,685	\$ (121,286)	\$ 68,536,398	\$ 206,533	\$ 493,826	\$ (11,487)	\$ 69,225,271

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

For the year ended September 30, 2023, depreciation expense was charged to governmental and business-type activities functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 807,090
Public Safety	569,857
Public Works	68,171
Highways and Streets	68,011
Health and welfare	266,532
Culture and Recreation	202,676
Total Depreciation - governmental activities	\$ 1,982,337

<u>Business-Type Activities:</u>	
Water	\$ 788,325
Sewer	679,880
Total Depreciation - busines-type activities	\$ 1,468,205

E. Capital Assets

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

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Capital assets, being depreciated				
Right-to-Use Assets	\$ -	\$ 43,290	\$ -	\$ 43,290
Furniture and equipment	11,885	-	-	11,885
Total capital assets, being depreciated	11,885	43,290	-	55,175
Less: Accumulated depreciation				
Furniture and equipment	11,885	10,248	-	22,133
Total accumulated depreciation	11,885	10,248	-	22,133
Capital assets net	\$ -	\$ 33,042	\$ -	\$ 33,042

Depreciation expense of \$10,248 was charged to the economic development services function as of September 30, 2023.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

F. Interfund Receivables and Payables

Inter-fund balances as of September 30, 2023, 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	\$ 3,372,761	\$ 757
TIRZ Fund	42,559	-
Special Revenue Funds	-	97,482
Debt Service	-	210
Component Unit	78,805	729,851
Total General Fund	<u>3,494,125</u>	<u>828,300</u>
TIRZ Fund:		
General Fund	-	42,559
Total TIRZ Fund	<u>-</u>	<u>42,559</u>
Special Revenue Fund:		
General Fund	97,482	-
Total Special Revenue Fund	<u>97,482</u>	<u>-</u>
Debt Service Fund:		
Enterprise Fund	-	3,065,294
General Fund	210	-
Total Debt Service Fund	<u>210</u>	<u>3,065,294</u>
Capital Projects Fund:		
Utility Fund	-	12,469
Total Capital Projects Fund	<u>-</u>	<u>12,469</u>
Total Governmental Activities	<u>\$ 3,591,817</u>	<u>\$ 3,948,622</u>
Enterprise Fund:		
General Fund	757	3,372,761
Debt Service Fund	3,077,763	-
Total Enterprise Fund	<u>3,078,520</u>	<u>3,372,761</u>
Component Unit:		
General Fund	729,851	78,805
Total Component Unit	<u>729,851</u>	<u>78,805</u>

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

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 \$341,324 and the Development Corporation of Mercedes agreed to pay the City \$78,805. This resulted in a net amount of \$262,519 that the City owes the Development Corporation of Mercedes. Additionally, as of September 30, 2023, the City owed Development Corporation of Mercedes \$364,127 for sales taxes for a total amount due to Development Corporation of Mercedes of \$ 705,451.

G. 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, 2023, the City’s governmental long-term debt obligations currently outstanding are summarized by the following table:

	Interest Rate Payable	Amounts Original Issue	Maturity Date	Balance 10/1/2022	Increase	Decrease	Balance 9/30/2023	Due in One Year
Governmental Activities								
<i>Bonds Payable</i>								
Series 2013 Public Property Finance Contractual Obligations	2.59%	\$ 1,020,000	9/30/2028	\$ 1,020,000	\$ -	\$ (160,000)	\$ 860,000	\$ 165,000
Series 2015 Combination Tax and Limited Pledge Revenue C.O.	2.73%	1,685,000	9/30/2030	930,000	-	(225,000)	705,000	230,000
Series 2015 Obligation Refunding Bonds	2.05 -2.42%	930,000	9/30/2026	1,685,000	-	(190,000)	1,495,000	195,000
Series 2016 Limited Tax Refunding Bonds	4.00 -4.25%	3,042,000	9/30/2036	4,123,600	-	(527,650)	3,595,950	545,950
Series 2018 Combination and Limited Pledge	3.00 -4.00%	8,610,000	9/30/2038	8,610,000	-	(395,000)	8,215,000	405,000
Series 2021 Combination Tax and Limited Pledge	2.45%	8,200,000	9/30/2033	4,510,000	-	(96,250)	4,413,750	100,850
<i>Total Bonds Payable</i>		23,487,000		20,878,600	-	(1,593,900)	19,284,700	1,641,800
<i>Notes Payable</i>								
N/P Development Corporation of Mercedes	0%	1,000,000	3/30/2026	468,750	-	(125,000)	343,750	125,000
<i>Total Notes Payable</i>		1,000,000		468,750	-	(125,000)	343,750	125,000
<i>Other Debt Obligations</i>								
Settlement Payable				5,420,697	-	(500,000)	4,920,697	-
Amortization of Bond Premiums				667,581	-	(47,780)	619,801	-
Compensated Absences				327,307	-	(2,350)	324,957	-
<i>Total Other Debt Obligations</i>				6,415,585	-	(550,130)	5,865,455	-
Total Governmental Activities				\$27,762,935	\$ -	\$(2,269,030)	\$25,493,905	\$1,766,800

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

H. Long-Term Liabilities – Continued

As of September 30, 2023, the City’s business-type long-term debt obligations currently outstanding are summarized by the following table:

Business-Type Activities

Bonds Payable

Series 2006 Combination Tax and Subordinated

Lien Revenue C.O.		\$ 240,000	9/30/2026	\$ 240,000	\$ -	\$ (65,000)	\$ 175,000	\$ 65,000
Series 2013 Utility System Revenue Bonds	1.19-2.18%	1,970,000	9/30/2033	1,970,000	-	(165,000)	1,805,000	165,000
Series 2013 General Obligation Refunding Bonds	4%	150,000	9/30/2024	150,000	-	(75,000)	75,000	75,000
Series 2016 Limited Tax Refunding Bonds	4.00-4.25%	2,636,400	9/30/2036	2,636,400	-	(337,350)	2,299,050	349,050
Series 2021 Combination Tax and Limited Pledge	2.45%	<u>3,690,000</u>	9/30/2033	<u>3,690,000</u>	-	<u>(78,750)</u>	<u>3,611,250</u>	<u>83,250</u>
<i>Total Bonds Payable</i>		8,686,400		8,686,400	-	(721,100)	7,965,300	737,300

Other Debt Obligations

Amortization of Bond Premiums

				242,113	-	(32,282)	209,831	-
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Compensated Absences

				<u>22,141</u>	-	<u>(1,810)</u>	<u>20,331</u>	-
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Total Other Debt Obligations

				<u>264,254</u>	-	<u>(34,092)</u>	<u>230,162</u>	-
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Total Business-Type Activities

				<u>\$ 8,950,654</u>	<u>\$ -</u>	<u>\$ (755,192)</u>	<u>\$ 8,195,462</u>	<u>\$ 737,300</u>
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As of September 30, 2023, the City’s component unit long-term debt obligations currently outstanding are summarized by the following table:

Component Unit Activities

Bonds Payable

Series 2007 sales tax revenue bond	4.55%	<u>\$ 3,500,000</u>	8/15/2027	<u>\$ 1,225,000</u>	\$ -	<u>\$ (225,000)</u>	<u>\$ 1,000,000</u>	<u>\$ 235,000</u>
<i>Total Bonds Payable</i>		3,500,000		1,225,000	-	(225,000)	1,000,000	235,000

Notes Payable

N/P USDA	1.00%	750,000	2/16/2041	753,250	-	(250,000)	503,250	250,000
N/P Office of the Governor	3.25-5.0%	1,075,000	2/1/2025	299,716	-	(116,284)	183,432	127,179
Valley Telephone Cooperative	Varies	<u>2,000,000</u>	3/1/2026	<u>713,316</u>	-	<u>(25,816)</u>	<u>687,500</u>	<u>26,074</u>
<i>Total Notes Payable</i>		3,825,000		1,766,282	-	(392,100)	1,374,182	403,253

Other Debt Obligations

Settlement Payable	Varies	2,195,882	11/20/2028	1,529,856	-	(522,805)	1,007,051	522,805
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Leases Payable	3.00%	<u>43,499</u>	10/25/2027	<u>-</u>	43,499	<u>(10,248)</u>	<u>33,251</u>	<u>19,239</u>
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Total Other Debt Obligations

		<u>2,195,882</u>		<u>1,529,856</u>	<u>43,499</u>	<u>(533,053)</u>	<u>1,040,302</u>	<u>542,044</u>
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Total Component Unit Activities

		9,520,882		4,521,138	43,499	(1,150,153)	3,414,484	1,180,297
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Total Debt Obligations				<u>\$ 41,234,727</u>	<u>\$ 43,499</u>	<u>\$ (4,174,375)</u>	<u>\$ 37,103,851</u>	<u>\$ 3,560,297</u>
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City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

I. Long-Term Liabilities - Continued

Note Payable – Governmental Activities

Governmental activities note payable as of September 30, 2023, is as follows:

A note dated March 1, 2016, was 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.

\$	343,750
\$	<u>343,750</u>

Notes Payable – Component Unit

Governmental activities note payable as of September 30, 2023, is as follows:

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 February 2041 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.

503,250

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 variable between 3.25% and 5%. The note is secured by a lien and security interest in sales and use tax.

183,432

A note dated March 1, 2016, 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.

	<u>687,500</u>
\$	<u>1,374,182</u>

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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, 2023, the settlement payable balance for the City and DCM totaled \$4,920,697 and \$1,007,051 respectively. Due to not having a set payment schedule, it has not been included in the following amortization schedule.

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

Year Ending	Total Bonds Payable		Total Notes Payable		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30,						
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	1,693,750	400,750	-	-	1,693,750	400,750
2029-2033	7,422,200	1,262,928	-	-	7,422,200	1,262,928
2034-2038	3,434,200	348,689	-	-	3,434,200	348,689
	<u>\$ 19,284,700</u>	<u>\$4,254,157</u>	<u>\$343,751</u>	<u>\$ -</u>	<u>\$ 19,628,451</u>	<u>\$4,254,157</u>

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

Year Ending	Total Bonds Payable	
	Principal	Interest
September 30,		
2024	\$ 737,300	\$ 206,791
2025	687,400	187,058
2026	683,600	167,305
2027	697,150	146,187
2028	731,250	123,500
2029-2033	4,342,800	296,163
2034-2038	85,800	5,553
	<u>\$7,965,300</u>	<u>\$1,132,557</u>

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

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,	Total Bonds Payable		Total Notes Payable		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 235,000	\$ 45,500	\$ 403,252	\$ 15,487	\$ 280,500	\$ 60,987
2025	245,000	34,808	332,588	5,715	577,588	40,523
2026	255,000	23,660	214,098	4,250	469,098	27,910
2027	265,000	12,058	26,864	3,984	291,864	16,042
2028	-	-	27,132	3,716	27,132	3,716
2029-2033	-	-	138,402	15,838	138,402	15,838
2034-2038	-	-	145,462	8,778	145,462	8,778
2039-2043	-	-	86,384	1,729	86,384	1,729
	<u>\$1,000,000</u>	<u>\$ 116,026</u>	<u>\$1,374,182</u>	<u>\$ 59,497</u>	<u>\$2,374,182</u>	<u>\$ 175,523</u>

Changes in Long-Term Debt

During the year ended September 30, 2023, the following changes occurred in liabilities reported in long-term debt:

	Balance 10/1/2022	Increase	Decrease	Balance 9/30/2023	Due in One Year
Governmental Activities					
General obligation debt	\$ 20,878,600	\$ -	\$ (2,266,680)	\$ 18,611,920	\$ 1,642,700
Premium on bonds	667,581	-	(47,780)	619,801	-
Notes payable	468,751	-	(125,000)	343,751	-
Settlement payable	5,420,697	-	(500,000)	4,920,697	-
Total governmental activities	<u>\$ 27,435,629</u>	<u>\$ -</u>	<u>\$ (2,939,460)</u>	<u>\$ 24,496,169</u>	<u>\$ 1,642,700</u>
Business-type Activities					
General obligation debt	\$ 8,686,400	\$ -	\$ (721,100)	\$ 7,965,300	\$ 737,300
Premium on bonds	242,113	-	(32,282)	209,831	-
Total business-type activities	<u>\$ 8,928,513</u>	<u>\$ -</u>	<u>\$ (753,382)</u>	<u>\$ 8,175,131</u>	<u>\$ 737,300</u>
Component Unit					
Bonds payable	\$ 1,225,000	\$ -	\$ (225,000)	\$ 1,000,000	\$ 235,000
Notes payable	1,766,282	-	(392,100)	1,374,182	403,252
Settlement payable	1,529,856	-	(522,805)	1,007,051	522,805
Leases payable	-	43,499	(10,248)	33,251	19,239
Total Component unit	<u>\$ 4,521,138</u>	<u>\$ 43,499</u>	<u>\$ (1,150,153)</u>	<u>\$ 3,414,484</u>	<u>\$ 1,180,296</u>

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 2 – Detail Notes on all Funds – Continued

G. Long-Term Liabilities - Continued

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, 2023, 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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

Employees covered by benefit terms

Description	Amount
Inactive employees or beneficiaries currently receiving benefits	83
Inactive employees entitled to but not yet receiving benefits	148
Active employees	139
Total participants	370

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 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 15.79% and 15.57% in calendar year 2022 and 2023 respectively. The City’s contributions to TMRS for the year ended September 30, 2023, were \$873,738 and were equal to the required contributions.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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

Net Pension Liability

The City’s Net Pension Liability was measured as of December 31, 2022, 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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

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, 2022. 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 investments were 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/21	\$ 25,332,306	\$ 23,660,184	\$ 1,672,122
Changes for the year:			-
Service cost	936,213		936,213
Interest	1,696,778		1,696,778
Change in benefit terms	-		-
Difference between expected/actual experience	(399,108)		(399,108)
Changes of assumptions	-		-
Contributions - employer		841,132	(841,132)
Contributions - employee		378,159	(378,159)
Net investment income		(1,728,123)	1,728,123
Benefit payments, including refund of employee contributions	(1,325,915)	(1,325,915)	-
Administrative expenses		(14,945)	14,945
Other changes		17,834	(17,834)
Net change	907,968	(1,831,858)	2,739,826
Balance at 12/31/22	\$ 26,240,274	\$ 21,828,327	\$ 4,411,947

Net pension liability allocation:

City of Mercedes	97.10%	\$ 4,284,170
Development Corporation of Mercedes	2.90%	\$ 127,777

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	Discount	1% Increase
	5.75%	Rate 6.75%	7.75%
City's Net Pension Liability	\$8,156,968	\$4,411,947	\$1,371,056

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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

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

For the year ended September 30, 2023, the City recognized pension expense in the amount of \$886,060.

As of September 30, 2023, 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
Difference between expected and actual economic experience (Net of current year amortization)	\$ -	\$ 285,725
Change in actuarial assumptions	-	-
Differences between projected and actual investment earnings (Net of current year amortization)	2,660,148	-
Contributions subsequent to the measurement date	667,961	-
Total	\$ 3,328,109	\$ 285,725

\$667,961 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:

Fiscal Year Ending September 30,	Amount
2023	\$ 5,308
2024	343,543
2025	341,875
2026	665,037
2027	-
Thereafter	-
Total	\$ 1,355,763

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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 another 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

Description	Amount
Inactive employees or beneficiaries currently receiving benefits	58
Inactive employees entitled to but not yet receiving benefits	14
Active employees	139
Total participants	211

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 4 – Other Post Employment Benefits - Continued

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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, 2022.

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 0.17% and 0.14% in calendar 2022 and 2023 respectively. The City's contributions to TMRS for year ended September 30, 2023, were \$18,594 and were equal to the required Contributions.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 4 – Other Post Employment Benefits - Continued

	<u>Increase (Decrease)</u>
	<u>Total OPEB Liability</u>
	(a)
Balance at 12/31/21	\$ 441,613
Changes for the year:	
Service cost	24,310
Interest	8,280
Change in benefit terms	-
Difference between expected/actual experience	(19,830)
Changes of assumptions	(149,333)
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refund of employee contributions	(7,563)
Administrative expenses	-
Other changes	-
Net change	<u>(144,136)</u>
Balance at 12/31/22	\$ 297,477

Net OPEB allocation:

City of Mercedes	97.06%	\$	288,739
Development Corporation of Mercedes	2.94%	\$	8,738

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 4.05%, 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 (3.05) or 1 Percentage higher (5.05) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	3.05%	4.05%	5.05%
Total OPEB Liability	\$355,062	\$297,477	\$252,171

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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, 2023, the City recognized OPEB expense in the amount of \$22,621.

On September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual economic experience (Net of current year amortization)	\$ (37,444)	\$ -
Change in actuarial assumptions	(70,435)	13,992
Contributions subsequent to the measurement date	-	-
Total	<u>\$ (107,879)</u>	<u>\$ 13,992</u>

\$0 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,	Amount
2023	\$ (11,626)
2024	(21,482)
2025	(20,062)
2026	(22,617)
2027	(27,167)
Thereafter	<u>(4,925)</u>
Total	<u>\$ (107,879)</u>

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

Note 5 – Transfers

Transfers as of September 30, 2023, consisted of the following:

Governmental Activities:	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 632,397
ARPA	-	1,011,348
Special Revenue Fund	2,398	-
Local Forfeiture	5,445	-
Keep Mercedes Beautiful	4,555	-
TIF Fund	620,000	-
Series 2021	532,587	-
Total governmental activities transfers	<u>1,164,984</u>	<u>1,643,745</u>
Business-type Activities:		
Utility Fund	478,761	-
Total business-type transfers	<u>478,761</u>	<u>-</u>
Total Interfund Transfers	<u>\$ 1,643,745</u>	<u>\$ 1,643,745</u>

Note 6 – Commitments and Contingencies

Grants

The City participates in several 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, 2023, 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, 2023, 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2023

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 30, 2023:

<i>Incentives</i>	Commitment	Paid in Previous Years	Paid in Current Year	Balance Due
Rio Grande Livestock Show	\$ 300,000	\$ 200,000	\$ 75,000	\$ 25,000
Bert Ogden	300,000	-	300,000	-
La Herencia	200,000	132,000	1,334	66,666
Orchard Grove Apartments	450,000	300,000	100,000	50,000
	<u>\$ 1,250,000</u>	<u>\$ 632,000</u>	<u>\$ 476,334</u>	<u>\$ 141,666</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, 2023, 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
For the Year Ended September 30, 2023

Note 8 – Fund Balances

Fund balances as of September 2023, were summarized by the following table:

	<u>General Fund</u>	<u>Bond Series 2021</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance					
Nonspendable					
Inventory	\$ 62,599	\$ -	\$ -	\$ -	\$ 62,599
Redevelopment Assets	164,089	-	-	-	164,089
Total nonspendable	<u>226,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>226,688</u>
Restricted					
Special Revenue Fund	-	-	-	9,865	9,865
Debt service fund	-	-	896,035	-	896,035
Municipal court technology fund	-	-	-	156,129	156,129
Local forfeiture fund	-	-	-	34,707	34,707
Keep Mercedes Beautiful fund	-	-	-	1,678	1,678
Hotel/Motel fund	-	-	-	679,642	679,642
TIF fund	-	-	-	135,783	135,783
Recreation program fund	-	-	-	3,182	3,182
Parks Fund	-	-	-	171,582	171,582
Capital Projects P.P.F.C.O. 2013 Series	-	-	-	3,673	3,673
Capital Projects Series 2015 C.O.	-	-	-	2,439	2,439
Capital Projects Series 2018 Bond	-	-	-	64,924	64,924
Capital Projects Series 2021 Bond	-	658,082	-	-	658,082
Streets - Right of way	-	-	-	2,555	2,555
Total Restricted	<u>-</u>	<u>658,082</u>	<u>896,035</u>	<u>1,266,159</u>	<u>2,820,277</u>
Assigned					
Library Fund	-	-	-	2,722	2,722
Total Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,722</u>	<u>2,722</u>
Unassigned					
General fund	9,697,651	-	-	-	9,697,651
Total Unassigned	<u>9,697,651</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,697,651</u>
Total Fund Balance	<u>\$ 9,924,339</u>	<u>\$ 658,082</u>	<u>\$ 896,035</u>	<u>\$ 1,268,881</u>	<u>\$ 12,747,338</u>

Note 9 – Prior Period Adjustments

<u>Description</u>	<u>Amount</u>
Beginning fund balance/net position, as previously reported	\$ 17,173,073
To correct errors noted in the capital assets depreciation schedule which resulted in accumulated depreciation being understated in the prior year.	(121,286)
Beginning fund balance/net position, as restated	<u>\$ 17,051,787</u>

Note 10 – Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 21, 2024, and has 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, 2023

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 3,343,522	\$ 3,343,522	\$ 3,505,718	\$ 162,196
5120	General Sales and Use Taxes	4,927,428	4,927,428	6,396,225	1,468,797
5170	Franchise Tax	680,000	680,000	730,045	50,045
5190	Penalty and Interest on Taxes	125,000	125,000	84,003	(40,997)
5200	Licenses and Permits	394,000	394,000	536,205	142,205
5300	Intergovernmental Revenue and Grants	18,600	18,600	1,036,350	1,017,750
5400	Charges for Services	3,915,460	3,915,460	3,365,247	(550,213)
5510	Fines	67,000	67,000	73,785	6,785
5610	Investment Earnings	30,000	30,000	263,709	233,709
5620	Rents and Royalties	-	-	17,045	17,045
5700	Other Revenue	1,780,890	1,780,890	528,001	(1,252,889)
5020	Total Revenues	15,281,900	15,281,900	16,536,333	1,254,433
EXPENDITURES:					
Current:					
0100	General Government	3,475,716	3,475,716	3,358,282	117,434
0200	Public Safety	5,778,492	5,778,492	5,187,312	591,180
0300	Public Works	534,102	534,102	476,951	57,151
0310	Highways and Streets	882,576	882,576	527,717	354,859
0400	Health and Welfare	2,055,807	2,055,807	1,972,565	83,242
0500	Culture and Recreation	1,290,633	1,290,633	1,289,640	993
Debt Service:					
0710	Principal on Debt	625,000	625,000	625,000	-
Capital Outlay:					
0800	Capital Outlay	639,574	639,574	133,241	506,333
6030	Total Expenditures	15,281,900	15,281,900	13,570,708	1,711,192
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	2,965,625	2,965,625
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	50,355	50,355
8911	Transfers Out	-	-	(632,397)	(632,397)
7080	Total Other Financing Sources (Uses)	-	-	(582,042)	(582,042)
1200	Net Change	-	-	2,383,583	2,383,583
0100	Fund Balance - October 1 (Beginning)	-	-	7,540,756	7,540,756
3000	Fund Balance - September 30 (Ending)	\$ -	\$ -	\$ 9,924,339	\$ 9,924,339

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

CITY OF MERCEDES, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Plan Year Ended December 31,						
	2022	2021	2020	2019	2018	2017	2016
Total Pension Liability							
Service cost	\$ 936,213	\$ 924,643	\$ 931,185	\$ 814,509	\$ 723,965	\$ 712,113	\$ 740,529
Interest (on the total pension liability)	1,696,778	1,587,158	1,522,121	1,487,612	1,447,569	1,398,746	1,332,821
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	(399,108)	418,406	(209,134)	(490,403)	(398,692)	(478,060)	(236,560)
Change of assumptions	-	-	-	96,939	-	-	-
Benefit payments, including refunds of employee contributions	(1,325,915)	(1,298,057)	(1,256,720)	(1,654,784)	(794,999)	(1,035,847)	(655,971)
Net Change in Total Pension Liability	907,968	1,632,150	987,452	253,873	977,843	596,952	1,180,819
Total Pension Liability - Beginning	25,332,305	23,700,155	22,712,703	22,458,830	21,480,987	20,884,035	19,703,216
Total Pension Liability - Ending (a)	<u>\$ 26,240,274</u>	<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>
Plan Fiduciary Net Position							
Contributions - employer	\$ 841,132	\$ 879,935	\$ 959,839	\$ 827,756	\$ 766,842	\$ 783,036	\$ 789,320
Contributions - employee	378,159	368,174	371,413	319,774	288,596	286,977	289,431
Net investment income	(1,728,123)	2,737,517	1,476,699	2,675,917	(526,655)	2,135,982	950,023
Benefit payments, including refunds of employee contributions	(1,325,915)	(1,298,057)	(1,256,720)	(1,654,784)	(794,999)	(1,035,847)	(655,971)
Administrative expense	(14,945)	(12,658)	(9,550)	(15,104)	(10,170)	(11,068)	(10,722)
Other	17,834	87	(373)	(454)	(531)	(561)	(578)
Net Change in Plan Fiduciary Net Position	(1,831,858)	2,674,998	1,541,308	2,153,105	(276,917)	2,158,519	1,361,503
Plan Fiduciary Net Position - Beginning	23,660,184	20,985,186	19,443,877	17,290,773	17,567,690	15,409,172	14,047,669
Plan Fiduciary Net Position - Ending (b)	<u>\$ 21,828,327</u>	<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>
Net Pension Liability - Ending (a) - (b)	<u>\$ 4,411,947</u>	<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>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	83.19%	93.40%	88.54%	85.61%	76.99%	81.78%	73.78%
Covered Payroll	\$ 5,402,265	\$ 5,259,629	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806	\$ 4,099,672	\$ 4,134,721
Net Pension Liability as a Percentage of Covered Payroll	81.67%	31.79%	51.17%	71.56%	125.35%	95.45%	132.41%

CITY OF MERCEDES, TEXAS
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Fiscal Year Ended September 30,							
	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 841,132	\$ 876,640	\$ 959,839	\$ 933,895	\$ 809,721	\$ 783,036	\$ 795,685	\$ 810,771
Contributions in relation to actuarially determined contribution	(841,132)	(876,640)	(959,839)	(933,895)	(809,721)	(783,036)	(795,685)	(810,771)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,402,265	\$ 5,447,028	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806	\$ 4,099,672	\$ 4,134,721	\$ 4,303,896
Contributions as a percentage of covered payroll	15.57%	16.09%	18.09%	20.44%	19.64%	19.10%	19.24%	18.84%

CITY OF MERCEDES, TEXAS
Notes to Schedule of Contributions

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, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Plan Year Ended December 31,				
	2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	\$ 24,310	\$ 22,616	\$ 20,162	\$ 14,161	\$ 14,018
Interest (on the total OPEB liability)	8,280	8,357	8,866	14,145	8,541
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(19,830)	(6,176)	14,641	(139,319)	120,401
Change of assumptions	(149,333)	13,696	55,292	51,382	(18,067)
Benefit payments, including refunds of employee contributions	(7,563)	(6,838)	(2,653)	(1,827)	(1,649)
Net Change in Total OPEB Liability	<u>(144,136)</u>	<u>31,655</u>	<u>96,308</u>	<u>(61,458)</u>	<u>123,244</u>
Total OPEB Liability - Beginning	441,613	409,958	313,644	375,102	251,858
Total OPEB Liability - Ending	<u>\$ 297,477</u>	<u>\$ 441,613</u>	<u>\$ 409,952</u>	<u>\$ 313,644</u>	<u>\$ 375,102</u>
Covered Payroll	\$ 5,402,265	\$ 5,259,629	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806
Total OPEB Liability as a Percentage of Covered Payroll	5.51%	8.40%	7.73%	6.87%	9.10%

Notes to Schedule of Contributions

Valuation Date: December 31, 2022
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:

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.

* The Discount rate was based on the Fidelity Index's "20 -year Municipal GO AA Index:" rate as of December 31, 2022.

CITY OF MERCEDES, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2023

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
 As of September 30, 2023

	Municipal Technology	Library	Special Revenue	Local Forfeiture	Keep Mercedes Beautiful	Hotel/Motel	TIRZ	Recreation Program	Parks Fund	Total Nonmajor Special Revenue Funds
ASSETS:										
1010 Cash and Cash Equivalents	\$ 156,364	\$ 2,722	\$ -	\$ 38,487	\$ 1,678	\$ 654,428	\$ 178,343	\$ 3,182	\$ 171,582	\$ 1,206,786
1150 Accounts Receivable, Net	-	-	5,254	-	-	27,400	-	-	-	32,654
1260 Due from Other Governments	-	-	3,424	-	-	-	267,341	-	-	270,765
1300 Due from Other Funds	-	-	97,482	-	-	-	-	-	-	97,482
TOTAL ASSETS	156,364	2,722	106,160	38,487	1,678	681,828	445,684	3,182	171,582	1,607,688
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES										
	\$ 156,364	\$ 2,722	\$ 106,160	\$ 38,487	\$ 1,678	\$ 681,828	\$ 445,684	\$ 3,182	\$ 171,582	\$ 1,607,688
LIABILITIES:										
2010 Accounts Payable	\$ 235	\$ -	\$ -	\$ 3,780	\$ -	\$ 2,186	\$ -	\$ -	\$ -	\$ 6,201
2020 Wages and Salaries Payable	-	-	9,247	-	-	-	-	-	-	9,247
2080 Due to Other Funds	-	-	-	-	-	-	42,559	-	-	42,559
2230 Unearned Revenues	-	-	87,048	-	-	-	-	-	-	87,048
TOTAL LIABILITIES	235	-	96,295	3,780	-	2,186	42,559	-	-	145,056
DEFERRED INFLOWS OF RESOURCES:										
2605 Deferred Resource Inflow - TIRZ	-	-	-	-	-	-	267,341	-	-	267,341
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-	267,341	-	-	267,341
FUND BALANCES:										
3490 Restricted for Special Purposes	156,129	2,722	9,865	34,707	1,678	679,642	135,783	3,182	171,582	1,195,290
TOTAL FUND BALANCES	156,129	2,722	9,865	34,707	1,678	679,642	135,783	3,182	171,582	1,195,290
TOTAL LIABILITIES, DEFERRED LIABILITIES & FUND BALANCES	\$ 156,364	\$ 2,722	\$ 106,160	\$ 38,487	\$ 1,678	\$ 681,828	\$ 445,684	\$ 3,182	\$ 171,582	\$ 1,607,688

CITY OF MERCEDES
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 As of September 30, 2023

	PPFCO Series 2013	Series 2015	Series 2018	Street Maintenance	Total Nonmajor Capital Projects Fund
ASSETS:					
1010 Cash and Cash Equivalents	\$ 3,673	\$ 2,439	\$ 77,393	\$ 2,555	\$ 86,060
TOTAL ASSETS	3,673	2,439	77,393	2,555	86,060
DEFERRED OUTFLOWS OF RESOURCES:					
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,673	\$ 2,439	\$ 77,393	\$ 2,555	86,060
LIABILITIES:					
2080 Due to Other Funds	-	-	12,469	-	12,469
TOTAL LIABILITIES	-	-	12,469	-	12,469
FUND BALANCES:					
3550 Committed for Construction	3,673	2,439	64,924	2,555	73,591
TOTAL FUND BALANCES	3,673	2,439	64,924	2,555	73,591
TOTAL LIABILITIES, DEFERRED LIABILITIES & FUND BALANCES	\$ 3,673	\$ 2,439	\$ 77,393	\$ 2,555	\$ 86,060

CITY OF MERCEDES
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
 As of September 30, 2023

	Municipal Technology	Urban County	Library	Special Revenue	Local Forfeiture	Keep Mercedes Beautiful	Hotel/Motel	TIRZ	Recreation Program	Parks Fund	Total Nonmajor Special Revenue Funds
REVENUES:											
5180 Other Taxes	-	-	-	-	-	-	179,396	-	-	-	179,396
5200 Licenses and Permits	-	-	-	-	-	-	-	-	-	7,000	7,000
5300 Intergovernmental Revenue and Grants	-	226,774	-	296,495	-	-	-	-	-	-	523,269
5610 Investment Earnings	7,145	-	-	-	1,412	-	28,861	-	-	-	37,418
5650 Contributions	-	-	-	-	-	-	-	166,877	-	-	166,877
5700 Other Revenue	10,366	-	4,314	-	9,735	500	-	1,486	-	1,139	27,540
TOTAL REVENUES	17,511	226,774	4,314	296,495	11,147	500	208,257	168,362	-	8,139	941,499
100 General Government	2,886	226,774	-	58,885	-	-	132,592	-	-	2,057	423,193
200 Public Safety	-	-	-	175,022	16,101	-	-	-	-	-	191,123
400 Health and Welfare	-	-	-	-	-	5,055	-	-	-	-	5,055
500 Culture and Recreation	-	-	5,509	-	-	-	-	-	-	-	5,509
600 Conservation and Development	-	-	-	-	-	-	-	700,000	-	-	700,000
800 Capital Outlay	-	-	-	55,522	-	-	-	-	-	-	55,522
TOTAL EXPENDITURES	2,886	226,774	5,509	289,429	16,101	5,055	132,592	700,000	-	2,057	1,380,402
Excess(Deficiency) of Revenues Over(Under) Expenditures	\$ 14,625	\$ -	\$ (1,195)	\$ 7,066	\$ (4,953)	\$ (4,555)	\$ 75,664	\$ (531,638)	\$ -	\$ 6,082	(438,903)
7915 Transfers In	-	-	-	2,398	5,445	4,555	-	620,000	-	-	632,397
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	2,398	5,445	4,555	-	620,000	-	-	632,397
Net Change in Fund Balances	\$ 14,625	\$ -	\$ (1,195)	\$ 9,464	\$ 492	\$ -	\$ 75,664	\$ 88,362	\$ -	\$ 6,082	193,494
Fund Balance - October 1 (Beginning)	\$ 141,504	\$ -	\$ 3,917	\$ 401	\$ 34,215	\$ 1,678	\$ 603,978	\$ 47,421	\$ 3,182	\$ 165,500	\$ 1,001,796
Fund Balance - September 30 (Ending)	\$ 156,129	\$ -	\$ 2,722	\$ 9,865	\$ 34,707	\$ 1,678	\$ 679,642	\$ 135,783	\$ 3,182	\$ 171,582	\$ 1,195,290

CITY OF MERCEDES
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NONMAJOR
 GOVERNMENTAL FUNDS
 For the Year Ended September 30, 2023

		PPFCO Series 2013	Series 2015	Series 2018	Street Maintenance	Total Nonmajor Capital Project Funds
REVENUES:						
5610	Investment Earnings	\$ 172	\$ -	\$ 3,289	\$ -	\$ 3,461
5700	Other Revenue	-	-	-	1,005	1,005
	TOTAL REVENUES	<u>172</u>	<u>-</u>	<u>3,289</u>	<u>1,005</u>	<u>4,466</u>
Excess(Deficiency) of Revenues Over(Under)						
	Expenditures	172	-	3,289	1,005	4,466
	Net Change in Fund Balances	\$ 172	\$ -	\$ 3,289	\$ 1,005	\$ 4,466
	Fund Balance - October 1 (Beginning)	\$ 3,501	\$ 2,439	\$ 61,635	\$ 1,550	\$ 69,125
	Fund Balance - September 30 (Ending)	<u>\$ 3,673</u>	<u>\$ 2,439</u>	<u>\$ 64,924</u>	<u>\$ 2,555</u>	<u>\$ 73,591</u>

MERCEDES ECONOMIC DEVELOPMENT CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023

Data Control Codes	General Fund	RBEG Grant Fund	IRP Loan Fund	Total Governmental Funds
ASSETS				
1010 Cash and Cash Equivalents	\$ 1,025,511	\$ -	\$ -	\$ 1,025,511
1011 Restricted Cash and Cash Equivalents	287,340	281,813	319,840	888,993
1050 Taxes Receivable	364,126	-	-	364,126
1150 Notes Receivable, Net	103,389	553,078	175,685	832,152
1260 Due from City of Mercedes	341,324	-	-	341,324
1300 Due from Other Funds	16,427	5,789	-	22,216
1990 Redevelopment Assets	3,313,791	-	-	3,313,791
1000 Total Assets	<u>\$ 5,451,908</u>	<u>\$ 840,680</u>	<u>\$ 495,525</u>	<u>\$ 6,788,113</u>
LIABILITIES				
2010 Accounts Payable	\$ 1,529	\$ -	\$ -	\$ 1,529
2020 Wages and Salaries Payable	6,553	-	-	6,553
2080 Due to Other Funds	-	-	22,216	22,216
2090 Due to Others	78,805	-	-	78,805
2000 Total Liabilities	<u>86,887</u>	<u>-</u>	<u>22,216</u>	<u>109,103</u>
FUND BALANCES				
3445 Non-spendable Fund Balance	3,313,791	-	-	3,313,791
3590 Restricted Fund Balance	341,324	840,680	473,309	1,655,313
3600 Unassigned Fund Balance	1,709,907	-	-	1,709,907
3000 Total Fund Balances	<u>5,365,022</u>	<u>840,680</u>	<u>473,309</u>	<u>6,679,011</u>
4000 Total Liabilities and Fund Balances	<u>\$ 5,451,909</u>	<u>\$ 840,680</u>	<u>\$ 495,525</u>	<u>\$ 6,788,114</u>

MERCEDES ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

EXHIBIT C-2

<hr/> Total Fund Balances - Governmental Funds		\$ 6,679,011
 Amounts Reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		33,042
Long-term receivable due from the City of Mercedes is not available to pay current expenditures in the funds.		338,537
Right-to-Use lease liabilities used in governmental activities are not due and payable in the current period and, therefore, are not reported in the funds.		(33,251)
Interest on long-term debt is not accrued in the governmental funds, but is recognized as an expenditure in the funds.		(5,969)
 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.		
Pension Outflows	101,798	
Pension Inflows	(57,873)	
OPEB Outflows	5,211	
OPEB Inflows	<u>(7,693)</u>	41,443
 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.		
Net Pension Liability	(127,777)	
Net OPEB Liability	(8,738)	
Bonds and Notes Payable	<u>(3,381,233)</u>	(3,517,748)
 Net position of governmental activities		 <hr/> \$ 3,535,065

MERCEDES ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Data Control Codes	General Fund	RBEG Grant Fund	IRP Loan Fund	Total Governmental Funds
REVENUES:				
5120 General Sales and Use Taxes	\$ 2,101,933	\$ -	\$ -	\$ 2,101,933
5300 Intergovernmental Revenue and Grants	130,226	-	-	130,226
5610 Investment Earnings	21,500	17,660	10,837	49,997
5020 Total Revenues	<u>2,253,659</u>	<u>17,660</u>	<u>10,837</u>	<u>2,282,156</u>
EXPENDITURES:				
Current:				
0100 General Government	483,794	1,850	569	486,213
Conservation and Development:				
0650 Economic Development and Assistance	486,178	-	-	486,178
Debt Service:				
0710 Principal on Debt	1,114,089	-	25,816	1,139,905
0720 Interest on Debt	75,495	-	5,032	80,527
6030 Total Expenditures	<u>2,159,556</u>	<u>1,850</u>	<u>31,417</u>	<u>2,192,823</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>94,103</u>	<u>15,810</u>	<u>(20,580)</u>	<u>89,333</u>
OTHER FINANCING SOURCES (USES):				
7949 Contributed Property	20,000	-	-	20,000
7080 Total Other Financing Sources (Uses)	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
1200 Net Change in Fund Balances	114,103	15,810	(20,580)	109,333
0100 Fund Balance - October 1 (Beginning)	<u>5,250,919</u>	<u>824,870</u>	<u>493,889</u>	<u>6,569,678</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 5,365,022</u>	<u>\$ 840,680</u>	<u>\$ 473,309</u>	<u>\$ 6,679,011</u>

MERCEDES ECONOMIC DEVELOPMENT CORPORATION
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2023

EXHIBIT C-4

Net Change in fund balance - governmental funds	\$	109,333
Amounts reported in the statement of activities are different because:		
Repayment of long-term debt principal is an expenditure in the governmental funds but reduces the receivable in the statement of net position.		1,139,905
Current year right-to-use capital assets and right-to-use lease liabilities are expenditures in the fund financial statements, but should be shown as increases in capital assets, and decreases in lease liabilities. The net effect of removing the 2023 capital outlays is to decrease net position, while the net effect of removing the 2023 lease liabilities is to increase net position.		(209)
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.		(130,226)
Governmental funds do not accrue for interest expense on long-term debt. This is the net change in accrued interest payable for the year.		5,082
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.		
Net Pension Liability		(5,537)
Net OPEB Liability		(242)
		(5,779)
Change in net position of governmental activities	\$	1,118,106

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COMPLIANCE SECTION

ADRIAN WEBB, CPA

Certified Public Accountant

Edinburg, Texas

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

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, 2023, 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 March 21, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Mercedes'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 Mercedes's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Mercedes'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.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items, 2023-001 to be a significant deficiency.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on the City of Mercedes, Texas' response to the findings identified in our audit and 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
Edinburg, Texas
March 21, 2024

ADRIAN WEBB, CPA

**Certified Public Accountant
Edinburg, 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

Opinion on 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

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 are required to be independent of the City of Mercedes, Texas and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Mercedes, Texas' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Mercedes, Texas' federal programs.

Auditor's responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Mercedes' compliance based on our audit. 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 accounting standards, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City of Mercedes, Texas' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Mercedes, Texas' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Mercedes, Texas' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstance 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 the City of Mercedes, Texas' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Adrian Webb, CPA

ADRIAN WEBB, CPA

Edinburg, Texas

March 21, 2024

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CITY OF MERCEDES, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2023

I. Summary of the Auditor’s Results:

Financial Section:

- A. The type of report issued:
 Unmodified Opinion

- 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:
 Unmodified opinion

- 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:
 AL 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, 2023

II. Financial Statement Findings

2023-001 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, 2023, 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:

2022-001 (Significant Deficiency), 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.

II. Findings Relating to Federal Awards and Questions Costs.

None

CITY OF MERCEDES, TEXAS
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

2022-001: Control Over Fund Accounting Adjustments

Status: Not Corrected, see corrective action plan.

2022-002: Capital Assets

Status: Corrected.

City of Mercedes, Texas
SCHEDULE OF EXPENDITURES OF FEDERAL & STATE AWARDS
For the Year Ended September 30, 2023

Federal/State Grantor/ Pass Through Grantor/ Program Title	Federal AL Number	Pass-Through Entity Identifying Number	Expenditures
Federal Awards			
U.S. Department of Housing and Urban Development			
Passed through Urban County Community Development Block Grant 34th Year Entitlement Grant	14.218	B-21-UC-48-0501	\$ 144,758
U.S. Department of Housing and Urban Development			
Passed through Hidalgo County Urban County Community Development Block Grant 35th Year Entitlement Grant	14.218	B-22-UC-48-0501	\$ 82,016
U.S. Department of Treasury			
Direct Program Covid-19 Coronavirus State and Local Fiscal Recovery Funds (ARPA)	21.027		\$ 2,088,659
Department of Homeland Security			
Passed through the Texas Office of the Governor-Homeland Security Grants Division (HSGD) Homeland Security Grant Program	97.067	EMW-2021-SS-00062	\$ 95,733
Total Expenditures of Federal Awards			\$ 2,411,166

CITY OF MERCEDES, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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.

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, 2023, the City had no outstanding federal loans payable or loan guarantees.

NOTE 4: SUB-RECIPIENTS

During the fiscal year ended September 30, 2023, the City did not have any sub-recipients.

NOTE 5: NONCASH AWARDS

During the fiscal year ended September 30, 2023, the City did not receive any non-cash assistance.

NOTE 6: FEDERALLY FUNDED INSURANCE

During the fiscal year ended September 30, 2023, the City had no outstanding federally funded insurance.

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CITY OF MERCEDES, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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."

2023-001 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, 2024

Contact Person – Nereida Perez, Finance Director